

**2003
Regular Report
on
Bulgaria's
progress towards accession**

SEC (2003) 1210 final
5 November 2003

A.	INTRODUCTION	4
1.	Preface.....	4
2.	Relations between the EU and Bulgaria	6
	Recent developments in bilateral relations.....	6
	Community assistance.....	7
	Twinning.....	11
	Negotiations.....	11
B.	CRITERIA FOR MEMBERSHIP	12
1.	Political criteria	12
1.1	Recent developments	13
1.2	Democracy and the rule of law	14
	The parliament.....	14
	The executive.....	14
	The judicial system	17
	Anti-corruption measures.....	19
1.3	Human rights and the protection of minorities.....	20
	Civil and political rights.....	21
	Economic, social and cultural rights	23
	Minority rights and the protection of minorities	25
1.4	General evaluation	27
2.	Economic criteria	28
2.1	Introduction	28
2.2	Economic developments	28
2.3	Assessment in terms of the Copenhagen criteria.....	30
2.4	General evaluation	40
3.	Ability to assume the obligations of membership.....	41
3.1	Chapters of the acquis.....	44
	Chapter 1: Free movement of goods	44
	Chapter 2: Free movement of persons	47
	Chapter 3: Freedom to provide services	48
	Chapter 4: Free movement of capital.....	50
	Chapter 5: Company law.....	51
	Chapter 6: Competition policy.....	53
	Chapter 7: Agriculture	55
	Chapter 8: Fisheries	62
	Chapter 9: Transport policy	64
	Chapter 10: Taxation	67
	Chapter 11: Economic and Monetary Union	69

Chapter 12: Statistics	71
Chapter 13: Social policy and employment	73
Chapter 14: Energy	77
Chapter 15: Industrial policy	81
Chapter 16: Small and medium-sized enterprises	83
Chapter 17: Science and research	85
Chapter 18: Education and training	86
Chapter 19: Telecommunications and information technologies	88
Chapter 20: Culture and audio-visual policy.....	90
Chapter 21: Regional policy and co-ordination of structural instruments.....	91
Chapter 22: Environment.....	94
Chapter 23: Consumer and health protection.....	97
Chapter 24: Co-operation in the field of justice and home affairs	99
Chapter 25: Customs union.....	107
Chapter 26: External relations	109
Chapter 27: Common foreign and security policy	111
Chapter 28: Financial control	113
Chapter 29: Financial and budgetary provisions.....	115
3.2 Translation of the <i>acquis</i> into Bulgarian.....	117
3.3 General evaluation	118
C. CONCLUSION	121
ACCESSION PARTNERSHIP: GLOBAL ASSESSMENT	125
ANNEXES.....	127
HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES	128
STATISTICAL ANNEX.....	129

A. INTRODUCTION

1. 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 with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council in December 1997 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.”

Consequently, the Commission has published a series of yearly Regular Reports on Bulgaria covering the years 1998 to 2002.

The Thessaloniki European Council in June 2003 concluded that:

“Bulgaria and Romania are part of the same inclusive and irreversible enlargement process. Following the conclusions of the European Council in Copenhagen and depending on further progress in complying with the membership criteria, the objective is to welcome Bulgaria and Romania as members in 2007. [...] Building on significant progress achieved, the Union supports Bulgaria and Romania in their efforts to achieve the objective of concluding negotiations in 2004, and invites them to step up their preparations on the ground. [...] The European Council in December 2003, based on the regular reports from the Commission and the strategy paper, will assess progress achieved with a view to setting out the framework for the conclusion of accession negotiations.”

It is therefore appropriate to produce a Regular Report this year on Bulgaria’s progress towards accession, on the same basis as in previous years.

The structure followed for this Regular Report is largely the same as that used in previous years. The 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 1993 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. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently in Copenhagen in December 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Copenhagen European Council underlined again the importance of judicial and administrative reform in the candidate countries, stating that this will help bring forward their overall preparation for membership.

This Report takes into consideration progress since the 2002 Regular Report. It covers the period until 30 September 2003. In some particular cases, however, measures taken after that date might be mentioned. It looks at whether planned reforms referred to in the 2002 Regular Report have been carried out and examines new initiatives. In addition, this Report provides an overall assessment of the situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Bulgaria in preparing for accession.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by Bulgaria reflect the result of the accession negotiations and, in accordance with the principle of differentiation underlying the negotiation process, may differ from those made by other countries. Where Bulgaria has committed itself to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

Depending on further progress in complying with the membership criteria, the objective is to welcome Bulgaria as a member in 2007. The time scale for the implementation of commitments made by Bulgaria takes account of this perspective.

The Report contains a separate section examining briefly 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 rule, 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 their concrete progress in preparing for accession.

The Report draws on numerous sources of information. Bulgaria has been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information it has provided within the

framework of the Association Agreement and the negotiations, and various peer reviews that have taken place to assess its administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting the Report.¹ 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, and by non-governmental organisations.

2. Relations between the EU and Bulgaria

Recent developments in bilateral relations

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

The Association Council met in November 2002. An Association Committee meeting was held in July 2003. 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 in April 2003.

An accession roadmap was developed in close consultation with Bulgaria and adopted in November 2002. A revised Accession Partnership was adopted by the Council in May 2003. More details on this instrument can be found in part D of this report.

As a candidate country for accession to the EU, Bulgaria was invited to participate as an observer in the Intergovernmental Conference on the future institutional architecture of the Union.

The share of the European Community in Bulgaria's foreign trade has continued to increase. Turnover in trade with the EC in 2002 was 4% up on 2001 and accounted for 52.7% of Bulgaria's overall trade. In 2002, exports to the EC were 3% up on 2001, accounting for 55.9% (€ 3.44 billion) of Bulgaria's total export sales. Its main industrial exports to the EC were textiles and clothing, and iron and steel. Bulgaria's main agricultural exports to the EC were cereals, oil seeds and oleaginous fruits, and meat. In 2002, imports from the EC were up by 5% on 2001, accounting for 50.4% (€ 4.13 billion) of Bulgaria's total imports. Its main industrial imports from the EU were textiles and clothing. Its main agricultural imports were meat, fats and oils, and fruits and nuts.

A new consolidated Additional Protocol on agricultural trade entered into force in June following adoption by the EU Council of Ministers in April 2003. This Protocol, which incorporates the results of the "double profit" negotiations concluded in October 2002 extends the liberalisation process to sectors where market protection has been substantial (e.g. cereals, dairy products, beef and sheep meat) and where Bulgaria has important export interests. It potentially covers trade worth € 300 million.

¹ For the European Parliament the *rapporteur* is Mr Geoffrey van Orden.

Based on the guidelines for processed agricultural products delivered by the Council in October 2002, several negotiation meetings have already been held with Bulgaria aiming at concluding an agreement before the end of the year.

The free trade agreement on fish and fishery products negotiated between the EC and Bulgaria came into force in March 2003.

In September 2002 the EU adopted definitive safeguard measures on imports of certain steel products, with *erga omnes* effect. These measures are the absolute minimum necessary to protect EU steel producers from serious injury due to surging imports resulting from US protectionism, culminating in the US safeguard measures of March 2002.

On the basis of a Council Decision of May 1997, modified by a Council Decision of September 2002, and following a technical assessment mission which took place in September 2002, the Commission was mandated to open formal negotiations with Bulgaria on a PECA (Protocol to the Europe Agreement on Conformity Assessment and Acceptance of Industrial Products). Such negotiations have been opened.

Community assistance

Three **pre-accession instruments** have been financed by the European Community to assist the candidate countries of Central and Eastern Europe with 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. The support provided by these programmes is focused on the Accession Partnership priorities, which are intended to help the candidate countries meet the criteria for membership.

The Phare programme allocated commitments of € 1.35 billion to Bulgaria during the 1992-2002 period, including € 122.9 million in 2002. For the years 2000-2003, total financial assistance to Bulgaria amounted to around € 155 million annually from Phare, approximately € 55 million from SAPARD, and between € 83 and € 125 million from ISPA.

Phare provides support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. Phare 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 and grant schemes) with a regional or thematic focus.

In addition to its annual Phare allocation, Bulgaria receives additional Phare funding in the framework of the understanding reached in November 1999 on early closure dates for Units 1 to 4 of the Kozloduy nuclear power plant. The agreement makes provision for additional Phare funding of € 200 million over the period 2000-2006, 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 **2003 Phare Programme** for Bulgaria consists of an allocation of € 122.9 million for the National Programme complemented by an allocation for nuclear decommissioning. The 2003 Phare programme focuses on the following priorities:

- Political criteria: projects for the Council of Electronic Media, civil society development, Roma health and education, and child welfare and mental health (€ 9 million)
- Internal market and economic criteria: projects for the State Agency for Metrology and Technical Surveillance, Tourism Agency, cluster approach and food safety (€ 8 million)
- Meeting other obligations of the acquis: projects for veterinary border control, agriculture, maritime transport, employment, social policy, education, energy and environment (€ 23 million)
- Justice and home affairs: projects for civil and penal procedures, information technology for judicial reform, police academy, mobile border units and refugees agency accommodation (€ 14 million)
- Administrative reform and finance: projects for public administration reform, preparation for Structural Funds institution building, customs and financial control (€ 19 million)
- Economic and social cohesion: projects for alternative employment, water supply for tourism areas and regional development (€ 11 million)

An additional € 28 million was allocated for cross-border co-operation programmes, mainly for infrastructure projects on Bulgaria's borders with Greece and Romania.

In anticipation of the future EU external borders, an External Border Facility Programme of € 3.12 million was allocated in 2003 to prepare new cross-border co-operation programmes from 2004 onwards between Bulgaria and Turkey, Serbia, Montenegro and FYROM.

Bulgaria also participates in and benefits from Phare-funded multi-country and horizontal programmes, such as TAIEX (Technical Assistance Information Exchange Office), the Small and Medium-sized Enterprises Facility, SIGMA (Support for Improvement in Governance and Public Management) and the nuclear safety programme.

Furthermore, Bulgaria currently participates in the following Community programmes and agencies: Civil Protection Mechanism, Culture 2000, Customs 2007, Enterprise and Entrepreneurship, European Environmental Agency, Fiscalis 2007, Leonardo da Vinci II, Media (Plus), Socrates II and Youth. It also takes part in the Sixth Framework Research Programme, including Euratom. Phare helps meet part of the costs of participation in these programmes and agencies. In order to streamline Community legal procedures and thereby facilitate future participation by Bulgaria in Community programmes, a Decision was adopted in November 2002 by the EU-Bulgaria Association Council establishing the general terms and conditions for such participation.

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

agriculture, public administration, customs, border police, public sector finances and environment.

In Bulgaria, Phare played a particularly important role in the following:

- Minimising the social consequences of economic restructuring by supporting local job creation in former steel and mining regions through a grant scheme worth € 12 million. The total of 109 projects implemented in 5 regions of the country resulted in the creation of 2 950 job opportunities, with 20 % of the unemployed retaining their jobs after project completion. In addition, the project was instrumental in creating administrative capacity in the Bulgarian institutions involved for management of Economic and Social Cohesion grant schemes.
- Under a € 1.5 million twinning project of the Phare 2001 programme the Bulgarian National Bank (BNB) receives support from the French and the Dutch central banks. The project started in October 2002 and results obtained so far show that it is helping to consolidate BNB's leading role in the development of the banking sector, strengthen its administrative capacity and streamline activities with a view to accession to the European System of Central Banks.
- The implementation of medium-term strategy and restructuring of the Ministry of Finance was supported through technical assistance to the amount of € 2.3 million. As a result, a Financial Management Information System was made operational and a Public Finance School was established. Furthermore, the functions of different departments and divisions were clearly defined, the co-ordination within the Ministry was improved and the overall administrative capacity of the Ministry of Finance was enhanced.

The Phare programme permits extended decentralisation of management, which entails waiving the requirement for *ex ante* approval by Commission Delegations for tendering and contracting. This approach was again underlined in the Roadmap for Bulgaria. For this to be possible strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) is to be put in place by the end of 2004 at the latest.

Bulgaria has embarked on the preparation for EDIS in accordance with the four steps outlined in the "Roadmap to EDIS for ISPA and Phare". Bulgaria is starting stage 1, which is expected to be completed by the end of 2003.

The Commission approved the Bulgarian **SAPARD** programme in October 2000. The indicative allocation from the Community for SAPARD in Bulgaria for 2003 is € 56.1 million. The allocation for 2002 was € 55.6 million.

The Multi-annual Financing Agreement, which sets out the rules for implementing SAPARD, was signed in December 2000. The Annual Financing Agreement for the year 2003 was signed in July 2003.

Bulgaria was the first candidate country to have its SAPARD Agency accredited and to receive provisional conferral of management. Its initial mandate covered the implementation, on a fully decentralised basis, of three out of eleven measures of the SAPARD programme ("investments in agricultural holdings", "processing and marketing of agricultural and fishery products" and "diversification of economic activities"). In

August 2003 the Agency was accredited for the implementation of the following measures: “setting up producer groups”, “renovation of villages”, “vocational training”, “rural infrastructure”, “forestry”, “technical assistance” and the sub-measure “wholesale markets”. With the accreditation for these measures the Agency manages 92% of the amount available for Bulgaria under the programme.

An initial payment of € 13 million EU contribution was made to the National Fund in May 2001. Additional payments of € 19 million were made for expenditure declared by Bulgaria since the start of the programme until the middle of September 2003 . During this period the SAPARD Agency approved 751 projects, involving around € 125.3 million of public support (the EU is contributing € 94 million of this amount). Of these projects, 263 have been completed and the total subsidy, € 34.7 million (of which the EU contribution is € 26 million), has been paid to the beneficiaries.

A Monitoring Committee has been established by the Managing Authority and has met four times. The ISPA programming framework is governed by the environment and transport strategies drawn up by the Bulgarian authorities in agreement with the Commission. These strategies are to be reviewed in 2003. In the case of transport infrastructure, the emphasis is on completing or upgrading the main trans-European networks and developing border connections. Priorities include the upgrading of railway infrastructure along priority sections of TINA (Transport Infrastructure Needs Assessment) corridors so as to permit higher speeds and improve services, and completing the construction and modernisation of major highway sections on the same corridors. In the environmental area, the Bulgarian Government has focused on the improvement of water quality via investments in waste water treatment, sewerage systems and water supply. Urban waste management and air pollution are also priority areas.

Six environmental projects and one transport project were approved in 2002.

Implementation of ISPA projects in Bulgaria is progressing slowly, reflecting the size and complexity of the projects and the limited capacities of some of the implementing agencies. Technical assistance with implementation is included in ISPA project costs, while wider ranging measures to reinforce the bodies concerned are also underway. Various assessments of capacity weaknesses have been carried out. The audit of financial management and control systems carried out in December 2001 was followed up in October 2002 and in June 2003. Recommendations for strengthening structures and improving procedures have been made and in some cases implemented by the Bulgarian authorities. An adequate pipeline of projects is being prepared so as to be ready to take up the full future allocation of ISPA resources. Technical assistance from ISPA is available for all preparatory stages of projects, including technical, financial and economic feasibility studies, and environmental assessments. A strategy for the extended decentralisation (EDIS) of ISPA implementation was adopted in 2002 and arrangements for the first stage are currently in progress.

The full allocation for Bulgaria was committed in 2000 and 2001 (€ 104 million and € 106.8 million respectively), but there was a small shortfall in 2002 as a result of late and relatively weak applications for assistance, especially in the environment sector. The budgetary commitment in 2002 was €104.5 million and the indicative allocation for 2003 will be around € 110 million.

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. The Commission further strengthened this emphasis on institution building through the action plans for strengthening administrative and judicial capacity and through the elaboration of a roadmap for Bulgaria.

The twinning process, funded under Phare, makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

Furthermore, the candidate countries can draw on Member States' expertise through "Twinning Light", an exchange of expertise mechanism to support projects of limited scope.

For Bulgaria, 64 projects have been delivered over the period 1998-2002. Twinning will again be an important element of the 2003 programme, contributing to the results of around 16 projects. These span a broad range of sectors including administrative reform and capacity, judicial reform, environment, structural funds and cohesion fund, finance, energy, food safety, electronic media, and transport.

Negotiations

Negotiations were opened with Bulgaria in February 2000. All 30 *acquis* chapters have been opened. Of these, 26 have been provisionally closed. The following chapters remain to be concluded: Competition policy, Agriculture, Regional policy and co-ordination of structural instruments, Financial and budgetary provisions. Negotiations continue on the basis of the same principles that have guided the accession negotiations until now, whereby each country is judged on its own merits.

B. CRITERIA FOR MEMBERSHIP

1. Political criteria

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”²

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

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

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

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

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

In its 2002 Regular Report, the Commission found that:

“ 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. This has been confirmed over the past year. Bulgaria continues to fulfil the Copenhagen political criteria.

Significant progress has been made on the judicial reform strategy with the adoption of an Action Plan and major amendments to the Law on the Judicial System. These

2 In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, Article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." These principles were emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

need now to be implemented in order to translate them into concrete improvements in the functioning of the system. Issues relating to the structure of the judicial system and immunity still need to be addressed.

There have also been positive further developments in the fight against corruption, which remains a cause for serious concern, with inter alia the adoption of an action plan to implement the National Anti-Corruption Strategy. Whilst the need to tackle corruption is now high on the agenda Bulgaria needs to continue to make concerted efforts to implement the measures.

There has been some further progress on public administration reform with revisions to the legislative framework and the adoption of a Strategy for Modernisation of the State Administration but serious efforts are now required to develop and implement reforms to ensure an efficient, transparent and accountable public administration.

Bulgaria continues to respect human rights and freedoms. Bulgaria has considerably improved the legal framework, for tackling trafficking, corruption and organised crime as well as for asylum. However, there are a number of areas which continue to give cause for concern. A new issue that has been identified is the very poor living conditions of people in institutions, in particular the mentally handicapped. This needs to be addressed urgently. Bulgaria also needs to strengthen its efforts to reform the child care system, to make sure that the best interests of the child are reflected and reduce the number of children in institutions. Poor conditions for detainees in particular in police stations and pre-trial detention also need to be addressed.

The recent changes to the Penal Code are an important step in removing discrimination on the grounds of sexual orientation.

Concerning the Roma community, little has been done to remedy problems of social discrimination or to take concrete action to improve very poor living conditions. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.”

The section below provides an assessment of developments in Bulgaria, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding its 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.

1.1 Recent developments

The political situation has remained stable over the past year.

Accession to the European Union remains high on the political agenda of the government and enjoys broad political and public support. Efforts to make progress in accession preparations have been intensified.

The Protocol on Bulgaria's accession to NATO was signed in March 2003.

In September 2003, an important amendment to the constitution was adopted, introducing a number of changes in the context of the further reform of the judicial system.

1.2 Democracy and the rule of law

Bulgaria has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

Parliament continues to function satisfactorily. The overall law-making process is advancing steadily, with good results as to further alignment with the *acquis*.

With the formation of a new parliamentary group, there are now five political groupings represented in Parliament.

The Directorate for Legislation and European Law established in April 2002 has ensured that legal expertise on EC law is available at all stages of the parliamentary process. This should help to bring about an improvement in the quality of legislation. Continued attention should be paid to ensuring adequate staffing.

In May 2003, an ad hoc parliamentary commission was mandated to draft certain changes to the Constitution; these are needed to implement further necessary reforms and to align with the practices in EU Member States, in particular as regards the judiciary. This work resulted in the adoption of an important amendment to the Constitution.

The executive

In line with the Strategy for Modernisation of the State Administration of June 2002, the reform of the Bulgarian public administration has made progress with the adoption of certain pieces of legislation. Further legislation remains to be adopted. Overall, sustained efforts will be required in order to achieve the ambitious objective of the Strategy, which is to have a qualified and efficient civil service in place in the medium term.

The main structural changes to the organisation of the Government since the last Regular Report are the creation of a Ministry for Youth and Sport in October 2002 and of a Council for the Modernisation of the State Administration in March 2003.

The specific structures for co-ordinating European integration have remained the same as those described in the previous Regular Report. They continue to function well. In addition, a Deputy Prime Minister for European affairs was nominated in July 2003. He is chairman of the Council for European Integration, the Council for Nato and the Council for the Modernisation of the State Administration.

To proceed with the reform of the state administration, a programme and an action plan for the implementation of the Strategy for Modernisation of the State Administration were adopted in January 2003. The programme provides for the establishment of a Council for the Modernisation of the State Administration, which is responsible for the

management and control of the action plan. The Council reports directly to the Council of Ministers and is chaired by the Deputy Prime Minister in charge of EU integration. The Council is assisted by an administrative unit within the “State Administration” Directorate of the Council of Ministers, which has, however, only one permanent member of staff.

The action plan sets out changes to several pieces of legislation, such as changes to the laws on the Civil Service and on Administration and the new law on limiting the Administrative Regulation and Administrative Control of Economic Activity.

The latter law was adopted in June 2003 and aims to increase transparency in administrative decision-making as well as positive administrative silence in certain cases. It also regulates the legal procedures applicable for obtaining different licences and permits, such as business authorisations and building permits.

The amendment to the Civil Service law adopted in early October 2003 provides for new conditions for entering the Civil Service (requirements in terms of professional experience, compulsory competition), better career opportunities based on merit, the introduction of a salary system linked to performance, the right to training (including mechanisms for its funding), the revision of the code of conduct and procedures for the prevention of conflicts of interests.

The envisaged amendments to the law on Administration are not yet adopted.

In view of increasing the openness and transparency of public information, the Law on Access to Public Information was amended in May 2003 expanding the range of public institutions that are mandated to provide public information. As a new measure, an administrative appeal against refusal (including silent refusal) of access to public information is introduced in addition to an appeal at court level. The term “public information” was redefined in order to reduce the scope for discretionary judgements by the persons responsible for ensuring access to public information. Requests for access to public information have increased by around 40 % compared to the previous reporting period. Most administrative units have a focal point for dealing with such requests.

The legal framework for creating the institution of an Ombudsman was adopted by Parliament in May 2003 and will enter into force in January 2004. The Parliamentary Ombudsman and his Deputy will be in charge of investigating violations of citizens’ rights and liberties by state or municipal bodies and their administrations, as well as by persons who provide public services. In this context, they are entitled to access and receive any relevant data for inspection. Financial independence is provided for, as well as immunity. The Ombudsman and his deputy are elected for five years by a simple majority of votes in Parliament. They are exclusively answerable to Parliament and have to present an annual report on their activity. Their opinions and recommendations will be made public.

In order to improve administrative services, a “one-stop shop” concept was approved by the government in December 2002. The concept introduces standards for administrative servicing, in particular as regards the procedures for treatment of requests for public services, the improvement of access to services and better co-operation between services. It is being piloted by five ministries.

A report on the performance of the administration is published annually. It is a basis for assessing the efficiency of the state administration and for further necessary changes.

Over the reference period, the overall number of staff with civil-servant status has continued to grow and had reached 26 701 by the end of 2002, corresponding to an increase of around 32% compared to the previous year. The increase concerned mainly the central administration, and a large part of it resulted from the decision of the Ministry of the Interior to grant its employees the status of civil servants. The proportion of civil servants is around 33 % of all employees in the public administration.

During 2003, salaries in the public sector have increased by an average of 7 % (3.5 % as of January 2003 and another 3.5 % as of July 2003). Additional allocations have been granted, in particular a new bonus system for staff dealing with European affairs and pre-accession funds. However, salaries in the public sector still remain relatively low. In January 2003 a system of job descriptions and performance appraisals for public employees was introduced. The system provides the basis for performance-related pay.

Another priority part of the reform programme is training, and as of 2003 up to 0.8 % of the budget for civil servants' salaries has been made available for training purposes. The Institute for Public Administration and European Integration provided training for over 15 000 people in 2002, which represents an increase of 40 % compared to 2001. The Institute organises compulsory training for newly appointed civil servants as well as specialised training on European integration issues.

Progress has been made with implementation of the e-Government Strategy. Around two-thirds of the state administration has been interconnected. The objective is to provide information about the work of the public administration to citizens and to facilitate compliance with legal duties.

Transparency on the legislative process has improved, thanks to more systematic consultations with civil society and economic and social partners. Since the last Regular Report, there have been several good examples of co-operation with civil society, notably in the social field and in the fight against corruption (*see also section on Civil and Political Rights*). However, more consideration should be given on how the implementation of the *acquis* can also be fully ensured on regional and local level. Continued attention should also be given to monitoring and enforcement, in particular by the court system.

Local administration is the responsibility of municipalities. Bulgaria has 263 municipalities, which are legal entities with their own budgets and property. Mayors and municipal councils are elected directly by the local community. Over the reference period, concrete steps were taken to advance the decentralisation of government functions. In September 2002, the Government decided to divide the responsibilities for delivering public services between the central and local government, including the transfers needed to finance those services that fall under local government's responsibility, notably education, health and culture. The 2003 budget marked a significant step forward, as resources to local governments for the execution of their tasks were considerably increased.

The judicial system

The Bulgarian judicial system has a four-level court structure containing three separate instances: regional courts, district courts, appeal courts and a Supreme Court of Cassation. There is also a Supreme Administrative Court and a system of military courts. The Presidents of the Supreme Court of Cassation, Supreme Administrative Court and the Prosecutor General are elected by a qualified majority of two thirds from all members of the Supreme Judicial Council and are appointed by the President of the Republic.

The judiciary is composed of three independent entities: judges, prosecution and investigation service. They are selected on basis of an open competition announced for particular positions and are appointed by the Supreme Judicial Council as magistrates following a compulsory six-month training. After five years in office and a positive professional track record the magistrates become immovable following a decision by the Supreme Judicial Council.

The Constitutional Court is in charge of reviewing the constitutionality of laws and statutes brought before it, as well as the compliance of these laws with international treaties that the Government has signed. Parliament elects, by a two-thirds majority, the 12 members of the Constitutional Court, who serve a nine-year term.

Judicial control over decisions of the executive authorities is regulated and guaranteed by the Constitution. Accordingly, appeals can be lodged with the Supreme Administrative Court, which registered a slight increase of its caseload over the reference period. Besides that, an overall evaluation of the administrative justice system has started, including improving judicial control over acts of the government.

The Supreme Judicial Council is in charge of the self-administration and organisation of the judiciary. It has 25 members, of which three are ex-officio members: the President of the Supreme Court of Cassation, the President of the Supreme Administrative Council and the Prosecutor General; they have a seven-year mandate. The other 22 members are elected for five years, 11 by Parliament with simple majority and the other 11 by the judiciary. A permanent staff of 40 supports the work of the Council, which was strengthened over the reference period. The Council is mandated to prepare and present an annual report to Parliament on the functioning of the judiciary. This should help to ensure the accountability of the judiciary to the public.

The Council is furthermore in charge of drawing up the budgetary proposal for the judiciary and proposing it directly to Parliament without interference by the government. However, in 2003 the government, as in previous years, changed the proposal of the Council by cutting it considerably. In April 2003, the Constitutional Court declared the part of the judicial budget related to the Supreme Court of Cassation as unconstitutional. Following the ruling, a revised budget for the Supreme Court of Cassation was adopted in May 2003. The 2003 budget law provides for the possibility of using the additional income resulting from an increase of judicial taxes for expenditures related to the modernisation of the judicial administration. The allocation of these funds is decided by the Supreme Judicial Council. Nevertheless, public expenditure on the judiciary remains low and Bulgaria will need to ensure that the judicial budget is adequate for the smooth functioning of the judicial system and for the effective implementation of the ambitious reform programme.

The Ministry of Justice is responsible for carrying out the government's policy in the field of justice. The Minister chairs the meetings of the Supreme Judicial Council as a non-voting member. The ministry controls the administrative work of courts, collects information and analyses judicial practice. The Ministry of Justice and the Supreme Judicial Council co-operate on the preparation of legislation related to the judiciary. In order to co-ordinate their respective activities, a joint expert working group was set up at the end of April 2003. Amendments to the law on the Judicial System, aimed at replacing those provisions which were annulled by the December 2002 ruling of the Constitutional Court (*see below*), were adopted in July 2003. The new provisions regulate in particular the division of powers between the executive and the judiciary, i.e. the Ministry of Justice and Supreme Judicial Council, by providing the latter with more powers, especially as regards training for magistrates. This issue is also being reviewed in the context of the planned changes to the Constitution.

After the significant progress in preparing a thorough judicial reform in late 2001 and early 2002, part of the judicial reform came to a standstill when the Constitutional Court declared certain provisions of the revised law on the Judiciary to be unconstitutional and annulled them in December 2002. In another decision of April 2003, the Constitutional Court issued an interpretation with important implications for the planned amendments to the Constitution relating to the structure and mandate of the judiciary. According to the Constitution, any modification of state governance or state structure can only be adopted by a constituent Grand National Assembly, which requires new elections to be held. Other elements of the reform, such as the question of the status of judges, prosecutors and investigators, especially with regard to immunity and immovability, can be addressed by the current Parliament.

Following a consensus of all political parties represented in Parliament to proceed with the reform, an ad-hoc parliamentary commission was created in April 2003 and mandated to elaborate a proposal for amendments to the constitution. The proposal, presented in July 2003, suggested that magistrates should have only a functional penal immunity rather than an absolute one. This immunity could be lifted for actions taken in the context of their duties by a decision of the Supreme Judicial Council based on grounds laid down in the constitution or legislation. For actions beyond the duties of magistrates, the criminal and civil liability provisions would be applicable. Permanent status would be accorded after five years in office (instead of three years), subject to fulfilling a number of criteria. The proposal was adopted unanimously by Parliament in September 2003 and represents an important step forward in the overall reform of the judicial system.

However, the investigation service still exercises functions which are generally carried out by the executive authorities in Member States. The re-organisation of the investigation service as part of the executive needs to be addressed in a subsequent step, in order to solve current structural weaknesses in the pre-trial phase and make it more efficient by avoiding overlaps with other services.

In parallel with the work of the ad hoc commission, the reform plans for the judicial system (strategy and action plan) have been updated. Their scope has been extended and now also covers the necessary constitutional changes, administrative justice and procedural legislation. However, the reforms needed in the prosecution, notably as regards improving efficiency and accountability, have not been addressed.

In October 2002 and May 2003 amendments to the Civil Procedural Code and to the Penal Procedural Code were adopted, and should make court proceedings more efficient.

The main changes concern mechanisms for enforcing judgements and reducing the duration of procedures. However, it is too early to assess concrete effects of these changes on the length of judicial proceedings. Also, comprehensive statistics are lacking. As mentioned in previous reports, a high proportion of cases are returned by the courts to the prosecution and there is a lack of transparent conditions for this return.

In order to relieve judges and accelerate court proceedings, two new administrative positions, court administrator and court assistant, were created in January 2003. First appointments were made at the Supreme Administrative Court and the Supreme Court of Cassation. The court administrator is responsible for the organisation of courts, while the role of court assistants is to relieve the work of judges in preparing cases, drafting court decisions and analysing the practice of higher courts.

Over the last year, salaries of magistrates increased by 18-20%. Further salary development will be linked to the public sector. The working conditions of judges, prosecutors, investigators and judicial staff were also improved, but still remain difficult in most cases. The total number of posts for judges is 1 467, which represents a slight increase compared to the previous year.

The non-governmental Magistrate Training Centre has continued to provide training to judges, prosecutors and investigators. So far, around a quarter of the magistrates have received specialised training in EU law. Plans to transform the Training Centre into a public training institution — the National Institute for the Judiciary — were formalised with the new amendments to the Law on the Judiciary of July 2003, according to which the National Judicial Institute will be set up under the financial and organisational responsibility of the Supreme Judicial Council. Newly appointed magistrates have to undergo a six-month compulsory training in the National Judicial Institute.

The modernisation of court infrastructure is ongoing. Since September 2002 three new court buildings have been opened and courts are gradually being equipped with computer systems. A unified information system remains to be set up.

Anti-corruption measures

Public opinion still perceives corruption as a serious problem. Customs authorities, occupations linked to the judicial system, police and the health sector are considered to be amongst the most corrupt groups. The fight against corruption remained high on the political agenda of the Government.

Following the adoption of a National Strategy against Corruption (October 2001) and of an Action Plan (February 2002), various pieces of the national legislation have been amended to align with the main international instruments in the fight against corruption. The new measures should now be fully enforced.

The Action Plan expires at the end of 2003 and is currently being updated. In September 2003 the Government adopted a report on the implementation of the National Strategy. The report concluded that the administrative set-up of specialised structures for the fight against corruption should be strengthened, as well as the overall control over the implementation of the Action Plan.

Income and property declarations became compulsory for magistrates following the most recent amendments to the law on the judicial system (July 2003). The declaration also covers spouses and children and is included in a public register. Similar registers exist for customs officers. In February 2003 the National Association of Court Officials adopted a code of ethics specifying how court clerks should act in the event of being offered a bribe. Amendments to the Law on Civil Service law contain a new conflict-of-interest regulation.

Since the beginning of 2003, the collection and processing of statistical information on bribery has been further developed and now distinguishes between active and passive bribery in the private and public sector, trade in influence and abuse of official positions.

The institutional set-up in the fight against corruption has been further consolidated. An inter-ministerial committee, chaired by the Ministry of Justice, has been in charge of co-ordinating and controlling the implementation of the National Strategy and the Action Plan since February 2003. In addition, in October 2002 Parliament set up a 24-member permanent Commission to fight corruption. Its main task is to bring legislation into line with the EU *acquis* and practices, to monitor its implementation and to supplement it should weaknesses occur. Special units within various ministries and within the police and border guards are in charge of fighting corruption (see also *chapter 24: Justice and home affairs*). In particular, special measures have been taken with a view to ensure proper police behaviour at the borders and along transit routes. The impact of these measures needs to be assessed.

Bulgaria's legislation is to a large extent aligned with the Convention on the Protection of the European Communities Interests and its Protocols – although further legislative steps are required to introduce the concept of liability of legal persons and related sanctions, as well as the definition of fraud.

Bulgaria signed the additional Protocol to the Council of Europe Criminal Law Convention on Corruption in May 2003, but it still needs to be ratified. Bulgaria is participating in the monitoring of anti-corruption measures carried out by the OECD Working Group on Bribery in International Commercial Transactions. In February 2003, Bulgaria was subject to a Phase-2 review under the monitoring process of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The report adopted in June 2003 by the OECD working group on bribery recommends that Bulgaria put in place effective mechanisms for preventing and detecting foreign bribery, and that it introduce adequate mechanisms for the effective prosecution of foreign bribery offences. Bulgaria is a party to the Council of Europe Convention on Money Laundering, Search and Seizure and Confiscation of Proceeds from Crime. It is also a member of GRECO, the Council of Europe Group of States against Corruption, which regularly evaluates its member countries. The May 2002 evaluation report by GRECO noted that Bulgaria had so far made more progress in the adoption of legislation than in its implementation and enforcement.

1.3 Human rights and the protection of minorities

Bulgaria continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

Bulgaria has ratified the main human rights conventions (*see Annex I*). The Bulgarian Constitution incorporates the European Convention on Human Rights and Fundamental Freedoms (ECHR) into Bulgarian law, and accords the Convention supremacy over domestic legislation. In practice, there are hardly any cases of direct application of the Convention's provisions or of the jurisprudence of the European Court of Human Rights (ECtHR).

In December 2002 Bulgaria ratified Protocol No 13 of the ECHR on the abolition of the death penalty in all circumstances. The death penalty had already been suspended in Bulgaria in 1990.

The principle of non-discrimination is enshrined in the Constitution. In September 2003 Bulgaria adopted a comprehensive anti-discrimination law, which is aimed at reaching a large degree of alignment with the *acquis*. It introduces a system of sanctions and envisages the establishment of a Commission for protection against discrimination as an independent body. This Commission will appoint permanent panels, dealing amongst others with ethnic and racial discrimination and gender equality (*see also Chapter 13 - Social policy and employment*).

Civil and political rights

The situation as regards degrading treatment by the police has improved marginally over the year, and there continue to be reports of ill-treatment and the use of force during interrogation. Although the data protection law prohibits the identification of individuals by ethnic origin, Roma appear to be at particular risk of such treatment. The government has taken steps to address the situation, which should be further enhanced: some training in human rights awareness has started within the police and a special group has been formed to attract citizens of Roma origin to the services of the national police. In March 2003 new legislation prohibited the use of firearms during arrest, in line with European standards.

Trafficking in human beings — especially of women and children for the purpose of sexual exploitation — continues to be a serious problem in Bulgaria, which is a country of origin, transit and to a lesser extent destination. The government has continued its efforts to tackle this problem. Trafficking is prohibited by law and defined as a criminal offence. In addition, the new Law of May 2003 on Countering Illegal Trafficking in Human Beings introduces measures to prevent trafficking, improve co-ordination between state bodies and NGOs and protect the victims of illegal trafficking in human beings. The law is drawn up in line with the UN Convention against transnational organised crime and its supplementing Protocol to prevent, suppress and punish trafficking in persons, especially women and children. Both have been ratified by Bulgaria. The National Border Police and the National Service for Combating Organised Crime are mandated to fight trafficking.

Conditions in Bulgarian prisons remain inadequate, despite some improvements. Facilities are often overcrowded, below standard and do not offer appropriate services for inmates. With a view to improving the situation, five new facilities were constructed in 2002 (Sofia, Sliven, Burgas, Pleven, Bobov). Over the reference period, the conditions for pre-trial detention were improved as many of the underground locations for pre-trial detention were closed. In November 2002 a permanent working group on human rights, set up by the Ministry of Interior, adopted an action plan to implement the

recommendations of the Council of Europe Committee for the Prevention of Torture report, in particular as regards access to health care for inmates. Accordingly, new procedures entered into force in September 2003 and a new pre-trial detention center equipped according to European standards was opened.

Although access to legal aid is supposed, according to the constitution, to be available for everybody from the moment of detention or of being charged, empirical surveys have shown that in practice there was no defence counsel in nearly 50% of criminal cases in first instance. If convicted, the accused must pay the costs of the proceedings, as well as the expenses incurred by the private accuser and the civil claimant. This practice is contrary to the principles generally applied. The reform and further enhancement of the legal-aid system should therefore be a priority, in order to guarantee equal access to justice for all citizens.

In the area of asylum, further progress was made with the entry into force of a new law in December 2002. The new asylum law contains, inter alia, clear provisions on the procedures for application, the timeframe for taking a decision and an accelerated procedure. Decisions can be appealed against and appeals have suspensive effect. The number of asylum seekers in Bulgaria remains limited. Within the first eight months of 2003, 19 nationals of seven countries were granted refugee status under the Geneva Convention. Over the same period, applications by 258 people from 27 countries were rejected. Humanitarian status was granted to a total of 362 nationals of 20 countries (*see also Chapter 24: Justice and home affairs*).

Acts inspired by racism and xenophobia are prohibited by law, but implementation reportedly remains unsatisfactory. Despite some efforts by the government to address the issue, there continue to be reports of public expressions of racism and racist attacks against Roma. It remains to be seen whether the recent adoption of a comprehensive anti-discrimination law will improve the situation.

Freedom of expression is enshrined in the Constitution, and legal provisions are further developed in the legislation. The Law on Access to Public Information regulates the openness and transparency of public information (see above under “*the executive*”), as does the Radio and Television Law. Under the latter law, radio and television broadcasters in Bulgaria are independent, and any opinion may be freely expressed in radio and television broadcasts. Journalists and artists who have concluded contracts with radio and television broadcasters may not be given any instructions or directions as to the practice of their pursuits. However, the situation regarding libel, already described in the previous Regular Report, has not changed. Libel by a journalist is defined as a criminal offence. In practice only a small number of cases have ended with journalists being sentenced, and fines commonly replace criminal sanctions. However, the fact that a few courts did impose high fines is a matter of concern from the point of view of developing a free and independent media.

As regards religion, a new Law on Denominations was adopted by Parliament in December 2002. It aims at ensuring equality before the law, regardless of religious affiliation or creed. State interference in the internal organisation of religious communities and institutions is declared inadmissible. The Law has also conferred on the Bulgarian Orthodox Church the status of a legal person.

The 2002 Regular Report commented on progress as regards discrimination on the grounds of sexual orientation, following amendments to the penal code. However, the

amended penal code still contains a different level of sanctions for rape and a different age of consent.

NGOs continue to play an important role in public life. The rules of organisation and procedure of Parliament provide for the participation of NGOs in the preparatory legislative process, notably in the social field. Public-private consultative bodies, such as the National Council on Child Protection, the Council for Social Assistance and the National Council for Rehabilitation and Social Integration, have provided support for the formulation and implementation of government policies. Co-operation has been strengthened in the fight against corruption. Budgetary sources are still scarce and the sector is mostly funded by external donors. The financial conditions for NGOs have been slightly improved through recent amendments to the legislation on taxes, social assistance and health.

During the reference period, the ECtHR ruled against Bulgaria in six cases for violation of Article 5 of the ECHR. In five cases, the Court ruled that the right to a fair trial or release pending trial had not been respected. In addition, in two cases the lawyers of the applicants were refused access to the case file, which is in breach of the principle of 'equality of arms'. Furthermore, in two cases, the applicants' detention in a psychiatric clinic was found to be arbitrary and unlawful.

Economic, social and cultural rights

Further progress has been made concerning the adoption of general legislation on equal opportunities. Specific legislation on employment has been in place since March 2001, which introduced the principle of equal pay for women and men. The new law on anti-discrimination aims at transposing *inter alia* the *acquis* on equality of treatment for women and men, including the *acquis* on pregnant workers, parental leave, equal pay, equal treatment in employment and burden of proof. (*see also Chapter 13 - Social policy and employment*). Furthermore, a consultative commission on equal opportunities of women and men has been set up at the Ministry of Labour and Social Policy. Women represent 47.5% of the economically active population and represent around 25% of ministers and of members of Parliament.

In the area of children's rights, the legal framework has been further consolidated. The Law on Child Protection was amended in April 2003, reinforcing measures for child protection, notably by providing the following: special protection in public places; information on the rights and obligations of children and parents; preventive measures for the security and protection of children; legal aid by the state; special care for children with physical and mental disabilities. The law also introduces stricter rules for the placement of children: placement of children outside the family must be decided by courts; placement in specialised institutions is only possible if all other possibilities for keeping the child in a family environment have been exhausted. The law defines specialised institutions as establishments for the upbringing and tutoring of children who are permanently separated from their family environment. According to the latest statistics, the number of children in these institutions accounts for 2% of the child population.

Rules on the implementation of the Law on Child Protection were adopted in July 2003. Key issues addressed are: the introduction of financial support as an incentive to prevent abandonment of children and foster re-integration of children from institutions back to their families, the establishment of harmonised criteria and standards for child services

through a procedure of licensing together with adequate control mechanisms and improved co-operation between competent bodies in the field of child protection. However, the licensing procedure is only foreseen for natural and legal persons and does not apply to state-owned or municipal legal entities. This may put at risk an uniform application of the legal provisions. In August 2003, the Hague Convention on the Civil Aspects of the International abduction of children entered into force in Bulgaria. The European Convention on Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children was ratified in June 2003.

Despite these efforts, the situation of children placed in institutions has changed little during the reference period. In particular, the living conditions in these specialised institutions continue to be inadequate. The challenge will now be to maintain the momentum to ensure full enforcement of the new legislation.

In June 2003, the rules for adoption of Bulgarian children were changed via amendments to the Law on Family. Inter-country adoption is allowed if all options for accommodation with relatives and family friends or for domestic adoption have been exhausted and if three Bulgarian candidates have declined to take the child within six months. For this purpose, adoption boards and registers for children who could be adopted are being prepared at regional level. The establishment of these registers needs to be co-ordinated with the national information system on adoptive parents and candidates for adoption, which is being developed by the Agency for Child Protection. In line with the UN Convention on the Protection of the Child, inter-country adoption should remain an exception in order to ensure to a maximum extent the continuity of the child's upbringing in line with the child's ethnic, religious, cultural and linguistic background.

A National Strategy for Equal Opportunities for Disabled Persons, adopted in June 2003, contains measures to improve access to buildings and transport, education, employment, social services, legal protection and social and medical rehabilitation. The financial situation of people with disabilities has improved as a result of the allocation of a guaranteed minimum income, as provided for in the amendments to the Social Assistance law in December 2002 (*see also Chapter 13 - Social policy and employment*).

As regards the mentally disabled persons, a review of the situation in social care homes has been carried out by the Agency for Social Assistance. On this basis, a programme for the further rehabilitation or closing down of a number of institutions has been elaborated, which will be implemented up till 2006. So far seven of them have been closed. Living conditions in psychiatric hospitals and in social care homes continue to be inadequate, and opportunities for rehabilitation and therapy are scarce. There continue to be reports of ill-treatment.

The ECtHR ruling on the Varbanov v. Bulgaria case identified deficiencies in the legal system allowing for arbitrary detention of mentally disabled. To address these and to improve the legal protection of mentally disabled persons living in institutions, amendments to the law on Public Health are being prepared.

As regards social dialogue, further progress has been noted as a result of the amendments to the Labour law in December 2002. A National Institute for Conciliation and Arbitration was set up in April 2003. It assists in the voluntary settlement of collective labour disputes between employees and employers. The government is consulting the social partners on a regular basis within the Council for Tripartite Co-operation on issues related to salaries, social security, labour law, social implications of restructuring and

privatisation and budgetary policy. However, autonomous social dialogue is still at an early stage and needs to be further improved. There are few collective agreements and social dialogue at the enterprise and sectoral level is weak.

Bulgaria is a party to the revised European Social Charter. It has not signed the Additional Protocol providing for a System of Collective Complaints.

Minority rights and the protection of minorities

Already in 1999 Bulgaria adopted a “Framework Programme for Equal Integration of Roma into Bulgarian Society”, which has so far not been properly implemented. In September 2003, an action plan for the implementation of the Framework Programme has been adopted including some budgetary support. The Action Plan contains a range of short term measures in the areas of anti-discrimination policy, education, culture, housing, employment and social protection.

Since the last Regular Report the situation of the Roma minority has barely improved. In general, Roma face poor living conditions, social disadvantages and very high rates of unemployment. The health status of Roma is substantially worse than that of the majority of the population. This is due to poverty and poor sanitation conditions, as well as to an underdeveloped basic infrastructure in Roma settlements. Roma children are a special health-risk group, with a mortality rate around 6 times higher than the national average. As Roma children have the highest dropout rates from school, the levels of education of Roma are dramatically low. Many Roma still live in separate districts, where their own schools are located, and rarely mix with non-Roma. There continues to be widespread discrimination in education, employment, access to health and access to public services.

In the period under consideration, there has been some progress in the areas of education and health in particular. During the last year, various pilot projects were started in Roma schools with the aim of integrating Roma children in mainstream society. In August 2002 the Ministry of Education and Science issued new legislation on the education of children with special educational needs. This laid down stricter criteria for the allocation of children to special schools and attempted to stop the process of uncontrolled acceptance of normally developed children into special schools by using welfare criteria. In September 2002 new “instructions for the integration of minority children and pupils” were published, outlining a strategy for integration through education. The main elements of the strategy are the integration and preservation of Roma culture and the fostering of socialisation of young people from different ethnic communities. Mandatory free-of-charge pre-school preparation for children was introduced in September 2002 via amendments to the law on National Education. This preparation should help Roma children to facilitate their integration in the mainstream educational system.

In the area of health, the adoption of the new law on Public Health Insurance in January 2003 is a positive signal. Not all of the Roma population is aware of the procedures. An action plan in the field of Roma health for the years 2003-2008 is being prepared by the Council of Europe Development Bank.

With a view to reducing the high level of unemployment that the Roma are generally facing, the Ministry of Labour and Social Policy has launched a national programme called “From Social Care to Providing Employment”. The major objective of this programme is to offer employment and social integration to the long-term unemployed

through the targeted opening-up of jobs in public works. The programme started in autumn 2002 and anticipates approximately 100 000 jobs in 2003, of which around 89 000 have been occupied so far. Most of the people involved in the programme are of Roma origin.

Furthermore, some steps have been made to preserving Roma culture and identity. Traditional Roma holidays have been included in the official cultural calendar. Publication of a Romany press and of books has started, but mainly funded by NGOs or foreign donors. Various cultural and educational events, organised by Roma organisations, were supported by the Government.

Work has also begun on projects related to the improvement of infrastructure in Roma settlements and the building of homes, and in the area of Roma culture and media.

On the whole, initiatives have started to address the situation of the Roma minority. In this respect the adoption of the new Action Plan for the implementation of the Framework Programme with more specific activities and a timetable covering the period 2003-2004 will provide a good basis, as it will receive a specific budget for its implementation. Determined and sustained efforts will be needed to fight discriminatory attitudes and behaviour and to address the widespread social disadvantage affecting the Roma community. The recent adoption of a new, comprehensive anti-discrimination law should be a step forward in this respect .

The Turkish minority is integrated into political life through elected representation at national and local levels and through increasing representation in public administration. Further efforts are still needed for the socio-economic integration of ethnic Turks who live in economically underdeveloped regions.

1.4 General evaluation

Bulgaria continues to fulfil the Copenhagen political criteria.

Progress was made with the adoption of a programme and an action plan for the implementation of the Strategy for Modernisation of the State Administration, which aim at consolidating the legal framework in this area. Sustained efforts will be necessary to further implement the public administration reform and to fulfil Bulgaria's aim to have a qualified and efficient civil service in place in the medium term, to ensure the effective application and enforcement of the *acquis* when Bulgaria joins the Union.

The overall reform process for the judiciary continued in line with the 2002 Action Plan. In particular, the amendments to the Constitution regarding the status of magistrates represent an important step forward. Other legislative measures aim at reducing the duration of court proceedings and strengthening judicial control of decisions of the executive. However, further efforts are necessary to re-organise the investigation service as part of the executive in line with best practice in Member States. Bulgaria also needs to ensure that the judicial budget is adequate for the smooth functioning of the judicial system.

Corruption remains a problem, and Bulgaria should maintain concerted efforts to implement measures in this respect. The fight against corruption remained high on the political agenda and further measures in this context were adopted.

Bulgaria continues to respect human rights and fundamental freedoms.

The legal framework for asylum and child protection improved considerably. However, the living conditions of children placed in institutions changed little during the past year. As regards the mentally disabled, the required legal framework is still missing, notably to ban arbitrary detention. Despite some efforts to address the situation, the living conditions in institutions for mentally disabled people are difficult and opportunities for rehabilitation and therapy are scarce. Further efforts are necessary to address the situation as regards degrading treatment by the police and trafficking in human beings. In the area of social and economic rights, progress can be reported notably as regards equal opportunities and anti-discrimination.

The new Action Plan for the implementation of the "Framework Programme for Equal Integration of Roma into Bulgarian Society" represents a positive step, as specific budgetary support is provided for measures in the areas of anti-discrimination policy, education, culture, housing, employment and social protection. Determined and sustained efforts are needed to fight discriminatory attitudes and behaviour and to address the widespread social disadvantage affecting the Roma community.

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.”

In its 2002 Regular Report the Commission found that:

“Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining difficulties.”

Based on the findings of the 2002 Regular Report, the Roadmap for Bulgaria – adopted by the Commission in November 2002 – summarised a number of benchmarks for further economic reforms.

In examining economic developments in Bulgaria since the Opinion, the Commission's approach was guided by the June 1993 conclusions of the Copenhagen European Council, which stated that membership of the Union requires:

- the existence of a functioning market economy;

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and in the previous Regular Reports.

2.2 Economic developments

In spite of the global economic slowdown, the Bulgarian economy continued to benefit from high growth and stability. In 2002, the real GDP growth rate was 4.8% which was the third year in a row with a growth rate above 4%. Inflation is on a downward path, mainly due to low food prices and low import prices following the depreciation of the dollar, and is currently mainly driven by increases in indirect taxes and administered prices. Unemployment has decreased significantly due to jobs created in both the private sector and government employment schemes. The current account deficit in 2002 was lower than in 2001, but higher in the first half of 2003 than in the first half of 2002, and not fully covered by net inflows of foreign direct investment.

Main Economic Trends (as of 30 September 2003)							
Bulgaria		1998	1999	2000	2001	2002	2003 latest
Real GDP growth rate	percent	3.9	2.3	5.4	4.1	4.8	4.4 1 st semester
Inflation rate	percent	18.7	2.6	10.3	7.4	5.8	1.3 Jan-Aug
- annual average	percent						3.5 Aug-on-Aug
- December-on-December	percent	1.6	7	11.3	4.8	3.8	
Unemployment rate	percent	:	:	16.4	19.2	18.1	15.7 Q1
- LFS definition							
General government budget balance	percent of GDP	1.7	0.4	-0.5	0.2	-0.6 p	:
Current account balance	percent of GDP	-0.5	-5.3	-5.5	-6.0	-4.7 p	:
	million ECU/Euro	-55	-642	-760	-918	-777 p a	-889 Jan.-June a
Gross foreign debt of the whole economy	percent of exports of goods and services	145.3	168.0	132.3	120.5	:	:
- debt export ratio	million ECU/Euro	7 787	9 106	10 124	10 211	:	:
Foreign direct investment inflow	percent of GDP	4.2	5.9	7.9	2.6	3.9 p	:
- balance of payments data	million ECU/Euro	479	723	1086	397	647 p a	477 Jan.-June a

^a Source: Website of the National Bank.

P= provisional figures

Source: Eurostat unless otherwise indicated

Further progress has been made in the restructuring of the economy and privatisation, but not without difficulties. Privatisation under the new procedures, which were put in place in April 2002 to provide clearer rules and greater transparency, advanced more slowly than hoped for because of procedural problems and moderate interest by foreign investors, the latter also due to the weak state of the global economy. While some measures have been taken to enhance the efficiency of the public administration and the judicial system, clear signs of a reduction in their constraints on business in Bulgaria are not yet visible. The largely foreign-owned banking sector is developing rapidly in terms of credit growth and savings deposits, while the capital market is still underdeveloped.

Average per capita income is low at 25% of the EU average (in purchasing power standards) while the labour market situation is improving. Catching up of income and productivity towards levels reached elsewhere in Europe remains a major challenge for Bulgaria. The employment rate of the working-age population is slightly up but is still low at only 50.6% in 2002. The unemployment rate decreased from 19.2% in 2001 to 18.1% in 2002 and 15.7% in the first quarter of 2003. Almost two thirds of all unemployed were long-term unemployed. Unemployment rates for men are slightly higher than for women, and 35.6% of persons between 15 and 24 years were

unemployed. Regional income differences are small, as per capita incomes in 2000 ranged from 21% to 26% of the EU average, with the exception of the Southwest region, which includes Sofia, with 33.6% (data for level-2 statistical regions). Regional differences in unemployment are more pronounced. While in December 2002 the unemployment rate was 11.8% in the Southwest region, it was above 15% in all other regions, reaching up to 22.8% in the Northwest.

Main Indicators of Economic Structure in 2002 (as of 30 Sept. 2003)		
Bulgaria		
Population (average)	Thousand	7869
GDP per head ^a	PPS Percent of EU average	25
Share of agriculture ^b in:		
- gross value added	Percent	12.5
- employment	Percent	10.7
Gross fixed capital formation/GDP	Percent	18.1
Gross foreign debt of the whole economy/GDP ^c	Percent	70.3
Exports of goods & services/GDP	Percent	53.1
Stock of foreign direct investment ^d	Million Euro	2151
	Euro per head	273
Long term unemployment rate	Percent of labour force	11.9

a Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics. Due to a revision of Purchasing Power Standards, the figure is not comparable to the one presented in the 2002 Regular Report.

b Agriculture, hunting, forestry and fishing. Due to a revision of methodology, which is now based on respondents' main occupation, the figure is not comparable to the one presented in the 2002 Regular Report.

c Source: Bulgarian National Bank

d Data refer to 1999

Source: Eurostat unless otherwise indicated

2.3 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 has been continued support for the medium-term economic reform programme and for EU accession-related policies. Prudent fiscal policies and market-based economic reforms are the main priorities of the government. Announced policies have mostly been implemented by the government, although some structural reforms were delayed. In July 2003, the International Monetary Fund successfully completed the

third review of a two-year stand-by arrangement agreed in February 2002. Prior to the review a “Memorandum on Economic Policies of the Government and the Bulgarian National Bank” had been submitted which re-confirmed the economic policy programme based on the currency board arrangement, a cautious and flexible fiscal policy aimed at a balanced budget over the medium term and an acceleration of structural reforms to create a fully functioning and competitive market economy. In August 2003, the Bulgarian authorities submitted their latest Pre-accession Economic Programme to the Commission which had been prepared by the Ministry of Finance, following consultations of social partners, NGOs, academic circles and various government institutions. The programme confirms the government's commitment to its reform agenda.

Macroeconomic stability has allowed sustained economic growth of real GDP at rates above 4% since 2000. Last year, real GDP growth was 4.8%, despite the adverse global economic conditions, and real GDP growth in the first half of 2003 compared to the corresponding period of 2002 is estimated at 4.1%. Growth was largely based on buoyant domestic demand, while the contribution of net foreign trade was more neutral than in previous years. Investment growth in real terms was at 9.3% in 2002, while the investment-to-GDP ratio was almost stable, compared to 2001, at 18.1% in 2002.

The current account deficit decreased in 2002, but deteriorated again in the first half of 2003. The current account deficit, 6.0% of GDP in 2001, was 4.7% of GDP in 2002 due to a lower trade deficit, higher revenues from tourism, lower interest payments and higher current transfers. However, the current account deficit in the first half of 2003 was about 5.2% of projected GDP, much higher than in the same period one year earlier, mostly due to higher import than export growth and a higher deficit of the income balance. Net inflows of foreign direct investment (FDI) of 3.9% of GDP in 2002, after 2.6% in 2001, have again been lower than the current account deficit, but preliminary balance of payments data for the first half of 2003 suggest that FDI inflows have almost reached the level of the full year 2002. Nevertheless, because of other net capital inflows, the foreign reserves of the central bank increased further to an amount equalling about 6 months of imports in goods and services and continue to give credibility to the currency board arrangement. Total foreign debt declined substantially from 77% of GDP at the end of 2001 to 70% of GDP at the end of 2002 resulting from tight fiscal policies, two Brady bond exchange operations and the depreciation of the US dollar.

Unemployment is decreasing as a consequence of job creation in both private sector and government schemes. The unemployment rate decreased steadily from 19.2% in 2001 to 18.1% in 2002 (ILO definition, Labour Force Survey) as a result of both an increase in employment and a reduction in the labour force. Registered unemployment stood at 13.2% in July 2003 and was more than 4 percentage points lower than in July 2002. The net job creation can be attributed to both a buoyant private sector, where new activities outnumber job reductions from restructuring, and government-financed employment schemes for the unemployed which created about one third of the new jobs. Due to the importance of active labour market policies, the large informal economy and the difficulty in defining agricultural employment in structures of predominantly small-scale farming, the real situation in the labour market remains

difficult to assess. In order to reduce the evasion of social security contributions, obligations for employers to register all labour contracts were reinforced and hypothetical minimum salaries as a base for social security contributions, differentiated by sectors, were introduced at the beginning of 2003. These efforts to reduce the high amount of informal employment improved the base for taxation and social security contributions and give room for a reduction of rates and of subsidies to social security. They should go along with measures to increase labour market flexibility and to reduce non-wage labour costs in order to enhance the functioning of the rather rigid labour market in the formal sector of the economy.

Inflation has declined further. Measured by the (interim) harmonised index of consumer prices on annual average, inflation has come down to 5.8% in 2002 from 7.4% in 2001. Compared to the corresponding month of the previous year, inflation was at 3.8% at the end of 2002 and decreased to levels below 2% in the first half of 2003, due to a base effect and the reduction of import prices as well as moderate wage increases. Higher excise taxes on fuel and alcohol at the beginning of 2003 were not fully passed through to consumer prices, while higher electricity, district heating and telephone prices, implemented at the beginning of July 2003, had only a moderate effect on inflation. The overall year-on-year growth of administered prices declined from a peak of 29.5% in July 2002 to 8.4% in July 2003. Inflation excluding administered prices was -0.8% in July 2002 and 0.2% in July 2003.

Bulgaria continues to adhere to the currency board arrangement which fixes the Bulgarian lev (BGN) against the euro. The currency board arrangement, which was introduced in July 1997, continues to be well covered by foreign exchange reserves. Nominal short-term interest rates remained broadly stable throughout 2002, while real short-term interest rates turned negative at the end of 2002³. The broad monetary aggregate M3 grew by 19.6% in nominal terms and by 17.6% in real terms between July 2002 and July 2003. As, under a currency board, money supply is determined exclusively by economic actors' demand for money, this shows that the economy is being remonetised and re-establishing confidence in the Bulgarian currency.

Fiscal policy has continued to be tight. The general government deficit has been 0.6% of GDP in 2002 and is targeted at 0.7% of GDP in 2003. At the end of July 2003 the consolidated budget had a cash surplus of 1.8% of projected GDP. An active debt management strategy, including two Brady bond exchange operations, as well as the depreciation of the US dollar contributed to a strong reduction of general government debt from 66.4% of GDP at the end of 2001 to an estimated 53.0% of GDP at the end of 2002. A new law on government debt has been adopted which forbids the government to take on new debt if the ratio of consolidated general government debt to GDP exceeds 60%. The government is shifting from direct to indirect taxation and is reducing the share of the government's budget in GDP. Ongoing restructuring of the customs and tax administration in the context of preparations to create a National Revenue Agency is already increasing revenues. Measures to reduce fiscal fraud have been decided, including the creation of a fiscal investigation agency and better control of the sale of excise goods as well as the closure of certain duty-free shops. By July

³ In terms of one-month credit and deposit rates, corrected for by CPI inflation.

2003, the government's fiscal reserve, from which it can draw in the case of unforeseen events, had increased to above 12% of GDP. Fiscal decentralisation is ongoing by transferring certain tasks and funds from the central to municipal budgets.

The macroeconomic policy mix has been adequate. In the absence of monetary policy instruments and the possibility of changes to the nominal exchange rate in a currency board arrangement, fiscal policy is the main instrument of macroeconomic stabilisation. The tight fiscal stance – in spite of a worsening global economic environment - was appropriate in order to maintain the credibility of the currency board arrangement, to avoid a deterioration of the current account deficit and to make further progress in the reduction of public and foreign debt. The current account deficit has so far not been a cause of concern, since it allowed higher investment than domestic savings alone would do and was partly covered by net inflows of foreign direct investment. In order to maintain external competitiveness vis-à-vis the euro area as the main trading partner against which the Bulgarian *lev* had some real exchange rate appreciation, moderate wage increases in the budgetary sector, which tend to serve as a benchmark for the private sector, have also contributed to stability. Wages and salaries of employees with a labour contract have increased by 5.6% in real terms comparing the first half of 2003 to one year earlier, with slightly lower growth rates in the public than in the private sector. The IMF performance criterion of a maximum increase of 2% in the wage bill of 60 state-owned enterprises relative to their wage bill in the third quarter of 2002 has been respected.

Liberalisation of prices has progressed, in particular in energy and telecom, but is not yet complete. Prices for tobacco, water supply, waste disposal, electricity, district heating, medicines, certain hospital and medical services, passenger rail transport, postal services as well as fixed phone subscriptions and calls are administered or regulated. The current weight of these products and services in the consumer price index is 23%, slightly up from 22.4% last year due to their higher importance for consumers. Although the number of goods and services with administered prices has not decreased, important steps have been taken to reduce their number, in particular in the energy and telecom sectors. An average increase of 15% for electricity prices, 10% for district heating prices and 14% for local phone calls was implemented in July 2003. The price hikes in the energy sector are part of a three-year schedule aiming to achieve cost recovery prices in 2004 which allows to reduce state aid as well as cross-subsidisation between firms and households. For the telecom company, the objective is to reduce the cross-subsidisation of local by long-distance and international phone calls in view of increasing competition.

Private ownership has progressed further. In June 2003, 62.6% of all employees with a labour contract were working in the private sector, compared to 61.5% one year earlier. The private sector's share in gross value added grew from 71.4% in 2001 to 72.7% in 2002. Houses and land property are largely in private hands. A total of 275 privatisation deals were sealed in 2002 and 133 until the end of August 2003 of which 73 sales of minority packages, bringing the percentage of privatised assets which were state-owned in 1995 excluding infrastructure up to 82.3%.

The privatisation programme advanced more slowly than expected. The last major state-owned bank *Banka DSK* was sold in October 2003. In autumn 2002, preferred

buyers for 80% of the national tobacco company (*Bulgartabac Holding*) and for 65% of the national telecom monopoly (*BTC*) were selected, but - after long negotiations with many procedural problems - in September 2003 a decision was still pending for *BTC* while a new privatisation strategy was under preparation for *Bulgartabac*. Procedural uncertainties such as those experienced with *BTC* and *Bulgartabac* do discourage potential international investors to get involved in the privatisation of a major company in Bulgaria. In 2003, the Privatisation Agency launched the sale of minority stakes in 11 major companies on the stock exchange. They have been grouped into two pools of which one includes energy companies and the other minority stakes in the *State Insurance Institute (DZI)*, *Bulgarian Maritime Shipping*, an oil and gas prospecting company in Pleven, *Bulgartabac* and *BTC*. State minority stakes in 425 enterprises were offered in an open tender in June 2003.

Market entry and exit are not yet working smoothly, but recently introduced measures could improve the situation. The proportion of new companies (including self-employed) in the business register relative to all existing companies was 4.6% in 2001 and 3.4% in 2002. At the same time, the number of companies eliminated from the business register was 0.7% in 2001 and 0.8% in 2002. While these figures indicate high, though falling, net creation of new firms, they may also reflect both the overall business cycle and a lack of rigour in market exit procedures. Market entry is still hampered by various administrative procedures, which slow down start-ups and bind considerable amounts of enterprises' and public administrations' resources. Many licensing regimes have been eliminated or simplified and a public register of all required licensing, permission and registration regimes, accessible via Internet, has been created. In June 2003, a law establishing general principles on administrative regulation and control, including silent consent if the administration does not react within the foreseen time, has been adopted and will come into force in December 2003; it gives clearer rules and less discretion to administrations in their regulatory decisions. The law also establishes a list of 39 activities for which licensing is required, whereas only prior registration is required for all other activities, and it encourages the administration to introduce one-stop-shops. In spite of these improvements, there is still a widespread perception that starting and running a business is difficult because of complex rules and major inefficiencies in administrations and courts. Regarding market exit, insolvency procedures remain slow. For the year 2002, court statistics show that 432 insolvency cases were pending from previous years, 1707 new cases were initiated, and 1740 cases were completed, so that 399 cases were still pending at the end of the year. In order to speed up insolvency proceedings, amendments were made to the Commercial Code in June 2003 such that a company that fails to make an outstanding payment within 60 days after the payment was due will be considered insolvent. In addition, special legal chambers are being created at regional level which deal exclusively with bankruptcy cases.

Enforcement of property rights remains difficult in some areas. The slow and inefficient proceedings of the judicial system often discourage parties from taking cases to court, which contributes to the lack of reliable enforcement of property rights. Some progress has been made in streamlining administrative procedures, but these still impose substantial costs on the private sector. While large and foreign-owned companies are often able to bridge these shortcomings in the legal and regulatory

environment by turning directly to the higher levels of decision-making, this path is not always available to smaller or domestic companies. In spite of amendments to legislation on intellectual property rights and on counterfeiting, the actual enforcement is still insufficient, in particular as regards border controls. Housing property is mostly clearly defined and markets are working properly. Following the finalisation of land restitution in 2001, trade in agricultural land has decreased in terms of total size, but leasing of land has seen a sharp increase in 2002, although the share of idle agricultural land is estimated to have remained stable at one third. Land prices are generally low and stable although they vary according to regional and local conditions. Prices for agricultural land are low because profits in agriculture are low. Therefore, farmers hardly have access to credit and do not invest so that profits remain low. For similar reasons, landowners do not want to sell because they expect higher land prices in the future. This combines with high transaction costs for buying and selling because of a dispersed land ownership and a not yet efficient land registry.

The banking sector is increasing its role in financial intermediation. The privatisation of the last major state-owned bank (*Banka DSK*, the former *State Savings Bank*), which is the country's second-largest bank accounting for 12% of total commercial banks' assets, was finalised in October 2003 with the sale of 100% of its assets to a Hungarian bank. Only two banks with a public mandate, accounting together for 2.4% of commercial banks assets, remain state-owned and are not foreseen for privatisation. For the country's size, the number of banks is rather high at 34, but the sector is fairly concentrated with the largest 10 banks having a market share of about 75%, measured by several indicators. More than 80% of the total assets of the banking sector are foreign-owned. While credit to the private sector has increased further from 15% of GDP at the end of 2001 to 19% of GDP at the end of 2002 and total banking assets from 41% of GDP to 45% of GDP, these ratios are still fairly low for a market economy. Banks have maintained a policy of prudent lending as can also be seen by the capital adequacy ratio which, although declining from 31% at the end of 2001 to 25% at the end of 2002, is high by international standards and keeps systemic risks in the banking sector within close limits. In spite of strong growth of credit to non-financial corporations and households of 46% from July 2002 to July 2003, the share of non-performing credits increased only moderately from 3.8% to 4.5% from June 2002 to June 2003.⁴ Interest rate spreads in terms of average short-term bank lending and deposit rates have continued to decrease slowly from 10 percentage points (2001) to 9.7 percentage points (2002) because of increased competition between banks. Yet they are still comparatively high due to an average effect of the wide variation of risk profiles of borrowers in the country.

The non-banking financial sector is still in its early stage of development. The stock exchange remains underdeveloped and shows very low turnover despite a high number of companies quoted. The market capitalisation of companies listed on the Bulgarian Stock Exchange was about 6% of GDP in August 2003. Total turnover at the Bulgarian Stock Exchange in 2002 relative to market capitalisation at the end of

⁴ Calculated as loans not categorised as standard or watch, (i.e. substandard, doubtful and loss) as a percentage of all loans. The share of loans categorised as "watch" increased from 2.4% to 3.8% over the same period.

2002 was 20%. The government improved the situation in the first half of 2003 by bringing parts of the bigger privatised companies to the stock exchange and by gradually shifting from foreign to domestic sources of financing public debt. Pension fund assets have exceeded 1% of GDP at the end of 2002. The ratio of gross premium income of all insurance companies (including life and non-life insurance) to GDP was still rather low at 1.9% at the end of 2002.

Supervision of the financial sector has been strengthened. In March 2003 a new, largely independent, Commission for Financial Supervision started to work, which had been created by merging three different commissions for supervision of the non-banking sector (securities, insurance, and supplementary social insurance); supervision of the banking sector remains with the central bank. Since January 2003, International Accounting Standards have become obligatory for banks, other financial institutions and companies traded on the stock exchange; all other companies will follow in 2005.

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

The ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of such integration.

Bulgaria has achieved a high degree of macroeconomic stability and market mechanisms are working sufficiently to allow a more efficient allocation of resources. In the 2002 Regular Report, Bulgaria was recognised as a functioning market economy.

Further efforts are needed to increase the efficiency and quality of the education system. In general, Bulgaria has a well-educated and trained workforce, although the country suffers from the emigration of many of the best educated. While Bulgarians traditionally score high in international student assessments on mathematics and natural sciences, results declined in the 1990s and a quality problem in education for social sciences remains. There is a serious backlog in investment in schools arising from sharp cuts in education spending in the first half of the 1990s from 6% to about 4% of GDP since then, which is a fairly low rate by international comparison. Furthermore, there is a clear urban-rural divide in quality and school attendance rates. On the other hand, the declining school-age population due to the general demographic decline should free resources to tackle these problems without major increases in public expenditure. Indeed, the government pursues a strategy to reduce insufficiencies in the management of resources and to improve the efficiency of

spending on education. Between the school years 2001/2002 and 2002/2003 the number of educational institutions and teachers decreased by 3% which allowed teachers' salaries to increase without substantially increasing the overall wage bill. At the same time, net enrolment rates have increased, in particular in upper secondary education and in the group of 15 to 18 years old, most likely in response to the difficult situation on the labour market for young people. The shortage of management skills and of a properly trained judiciary and public administration, although improving, still adversely affect the performance of the corporate sector and its competitiveness prospects. As part of the judicial reform an improved system and funding for education in law has been introduced. Expenditure on the National Action Plan for Employment 2003 will be €245 million (about 1.4% of GDP), which includes about triple the amount spent on active labour market policies in 2002. Total expenditure on research and development was 0.5% of GDP in 2000, of which about one fifth was spent by the business sector.

Renewal and expansion of the private and public capital stock is gradually progressing. The ratio of gross fixed capital formation to GDP has remained broadly stable at 18% in 2002. However, this ratio might still be too low to support a continued path of high growth and could increase further in an improved business environment. The ratio of general government gross fixed capital formation to GDP was 3.1% in 2002, slightly down from 3.5% in 2001. Net inflows of foreign direct investment (FDI) had an important role in private capital formation although they were lower than in previous years at 3.1% of GDP in 2002 due to both the global economic situation and the problems in privatisation. FDI inflows were stronger in the first half of 2003, at estimated 2.7% of GDP, and already contracted deals with foreign investors suggest that a considerably higher level than in 2002 will be achieved until the end of 2003. More than half of total FDI is channelled into industry; trade, finance and tourism are the next most important sectors.

The quality of infrastructure is low, but slowly improving. Transport infrastructure is in a process of upgrading through the efforts of the Bulgarian authorities and the support from EU pre-accession funds and other international organisations. The total length of the railway and motorway networks has remained stable. The information and telecommunication infrastructure is weak, but can be expected to improve substantially in the years to come with the privatisation of the telecom monopoly and the liberalisation of the sector. The fixed telephone network is making slow progress, with its digitalisation rate still as low as 25.5% at the end of 2002. Subscriptions to mobile phone services, with two currently active independent GSM operators and a third license as an option in the privatisation of the fixed-line telecom monopoly, have increased from 19% (2001) to 33% (2002) of total population. Energy infrastructure investment is oriented towards facilitating the physical unbundling of the electricity sector, improving quality for the end-consumer (district heating) and connecting networks to neighbouring countries. Local infrastructure, such as streets, sewerage, water supply and schools, is still in a poor state since municipalities do not have sufficient means for investment because fiscal decentralisation has only just started.

Enterprise restructuring has made further progress in the context of privatisation, while it is still unfinished in particular in the network industries. This holds in particular for the energy sector, where efficiency is still low. In the electricity sector,

rules on third party access have been introduced, allowing 10 large companies to have bilateral deals with 5 eligible electricity generators. The electricity sector is attracting substantial private investment, including foreign investment, such as the rehabilitation of a thermo-power generator (Maritsa East III). Privatisation of the seven regional electricity distribution companies and further hydropower plants is under preparation. Investment in district heating is being made to deliver more efficient use of this energy. In particular, heat meters have been installed covering about 92% of the district heat consumption country-wide so that households can have individualised bills corresponding to their consumption. The restructuring of the steel industry is incomplete although some efforts have been undertaken to ensure the recollection of suppliers, wage, tax and customs payments arrears. Under the Europe Agreement the Bulgarian authorities have requested an extension of the so-called “grace period” during which public aid could exceptionally be granted to steel companies to allow restructuring. In the telecommunications sector, privatisation of the telecom monopolist was not yet completed in September 2003. Since the fixed-line monopoly expired at the end of 2002, three operators have been given licences to enter the market although amendments to the regulatory framework are still under discussion in the Parliament. While the institutional separation of the railway infrastructure and operations is legally completed, which also ended the state monopoly on rail transport, there is no competition yet. Two requests from private operators were received, but no licence has been awarded yet. The state-owned rail service company continues to make significant losses which are covered by subsidies, payments arrears and pre-financing of services to large companies, but less so in 2002 than in 2001.

The relative importance of agriculture for the economy is decreasing. The agricultural sector’s share of gross value added has further declined from 13.4% in 2001 to 12.5% in 2002. While the share of industry (including construction) has remained at about 28%, services have expanded from 57.9% in 2001 to 59.7% in 2002. Based on a different statistical methodology, the EU Labour Force Survey which identifies sectoral employment according to the respondents' main occupation, there was an increase in agricultural employment from 9.7% (2001) to 10.7% (2002), a decrease in employment in services from 57.6% (2001) to 56.6% (2002) and a stable employment share in industry.

Small and medium-sized enterprises (SMEs) still have to cope with a difficult business environment. The share of (non-financial sector) enterprises with up to 250 employees accounted for 68% of all employed and 48% of value added in 2001. SMEs are particularly confronted with the difficult conditions of doing business in Bulgaria, including the inefficiencies in the administrative and judicial system as well as a lack of access to finance, information and management skills. The high importance of the grey economy makes competition harder for those SMEs which are playing by the rules. Although the situation is gradually improving, access to credit is difficult for many SMEs because banks demand strict conditions and high interest rates due to the higher risks arising from the frequent absence of adequate accounting and a weak judicial system. However, several banks are increasingly targeting credits to SMEs, also to implement public support programmes. The government has created a guarantee fund for micro-lending and is preparing one or more privately-managed equity funds with up to 49% state participation in capital.

The state has further reduced its direct involvement in the productive sector, but is becoming more active in stimulating private investment. Privatisation, trade liberalisation and a tight fiscal policy were the most important forms of reductions of state intervention. Hidden subsidies in the form of tax and social securities arrears of the enterprises monitored under the IMF arrangement decreased from 2.3% of GDP at the end of 2001 to 1.3% of GDP at the end of 2002 with a further declining trend in 2003. State-owned enterprises with financial risks are closely monitored and their restructuring has made progress. Mining, district heating and railway companies still receive substantial amounts of state aid to cover losses, but state aids are decreasing in the energy sector in line with price adjustments and improvements in efficiency. New rules on state aid and anti-trust, put in place in 2002, still need to be effectively implemented and the institutions need strengthening. While a new law on public procurement is being prepared to bring it in line with the EU *acquis*, rules and decisions are still opaque and make it difficult for foreign firms to compete. The government has embarked on a more pro-active industrial policy to further stimulate private investment. This includes a regional state aid map which defines regions where state aid and tax holidays can be given to investors in certain sectors more generously than elsewhere. An Investment Promotion Agency is being established to encourage and support potential investors.

Trade integration of the Bulgarian economy is high, but has decreased in relative terms. Due to high growth in Bulgaria, more efficient customs authorities and the slowdown of global trade, the general openness of the economy, measured by trade in goods and services as a percentage of GDP, decreased from 55.6% (2001) to 53.1% (2002) for exports and from 63.2% (2001) to 59.7% (2002) for imports. Bulgaria's most important export is tourism. Its revenues, as accounted in the balance of payments, were 8.4% of GDP in 2002 and were similar in 2003, largely unaffected by the general global problems in the sector. New free trade agreements with Western Balkan countries have been concluded. Additional concessions in mutual trade in agricultural products under the Europe Agreement were agreed. The value of merchandise trade with the EU was 52.9% of total trade in 2002, one percentage point higher than in 2001. Exports of goods to the EU consisted mainly of unrefined copper, fuel oils, iron, footwear, and textiles and clothing; the most important imports from the EU were motor vehicles and pharmaceuticals. Among the EU Member States, Italy, Germany and Greece have become the most important destination for Bulgarian products, while the most important partners outside the EU are Russia (imports only) and Turkey. Reforms to improve the functioning of customs offices were started in 2002 also with a view to the administrative capacity required for an open trade policy because of previously complicated and inconsistent procedures, particularly in the collection of VAT and excise duties. This may partly explain why – in spite of high GDP growth – there is only a surprisingly modest increase in imports in 2002 in that undeclared imports, which used to outbid domestic suppliers and might have been partly recorded in the statistics before, have become more difficult.

In spite of strong real effective exchange rate appreciation, the international competitiveness of the Bulgarian economy has been supported by productivity gains. The real appreciation of the Bulgarian *lev* against the euro, in terms of the difference in the moving 12-months average of consumer price inflation between the euro area and Bulgaria, had a declining trend and reached -0.1% in July 2003. Between the first

quarter of 2002 and the first quarter of 2003, real unit labour costs were almost stable since changes in real wages corresponded largely to changes in labour productivity. The appreciation of the real effective exchange rate from June 2002 to June 2003 was 8.0%, mostly due to the depreciation of the USD whose weight is more than half in the calculation of the index.⁵

2.4 General evaluation

Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it continues implementing its reform programme to remove remaining difficulties.

The Bulgarian economy has achieved a high degree of macroeconomic stability due to a good “policy –mix” brought about by the currency board arrangement, a tight fiscal stance and wage moderation. Economic stability and good progress in structural reforms allow market mechanisms to provide a more efficient allocation of resources which, in the absence of the nominal exchange rate as an instrument for adjustment, is setting the basis for a process of sustained growth. This holds in particular for the increasing role of the private sector through privatisation and the reduction of state aid, the positive development of the banking sector and some improvements in the regulatory environment.

However, the flexibility of product and labour markets needs to be further enhanced. In particular, the efficiency of the administrative and judicial system has to be improved, to provide economic agents with a more stable and predictable framework and better allow them to enforce their property rights. The privatisation programme needs to be completed. Regulations and administrative procedures affecting enterprises must be further streamlined, also to provide more viable conditions for small and medium-sized enterprises. The restructuring and liberalisation of the network industries needs to further advance in order to reduce subsidies, to enhance quality and allow for a reduction of the prices of their services. The ongoing reduction in unemployment should be further supported by addressing rigidities in the labour market and improving the education system. Implementing these reform measures should contribute to higher levels of private and public investment, thereby contributing to sustained growth and competitiveness within the Union.

⁵ Source: Bulgarian National Bank

3. Ability to assume the obligations of membership

This section addresses the question of Bulgaria's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*⁶, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2002 Regular Report, this section seeks to provide an overall assessment of Bulgaria's ability to assume the obligations of membership, and of what remains to be done. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 *acquis* chapters, and incorporates an assessment of Bulgaria's administrative capacity to implement the *acquis* in its various aspects. Bulgaria's progress in translating the *acquis* into its official language is assessed in a separate section.

In December 1995, the Madrid European Council remarked on the need to create the conditions for the gradual, harmonious integration of the candidate countries, 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 precondition for creating the mutual trust indispensable for future membership.

The Copenhagen European Council in December 2002 underlined again the importance of judicial and administrative reform in the candidate countries, stating that this will help bring forward overall preparation for membership. Building on the assessment of Bulgaria's administrative capacity provided in the 2002 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

“Despite the progress that has been made, Bulgaria has neither transposed nor taken on the essential elements of the acquis, particularly as regards the internal market. It is therefore uncertain whether Bulgaria will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, energy, justice and home affairs as well as agriculture. More generally, substantial administrative reform will be indispensable if Bulgaria is to have the structures to apply and enforce the acquis effectively.”

In the 2002 Regular Report, the Commission found that :

⁶ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Bulgaria's application for EU membership.

“ Since the Opinion in 1997, Bulgaria has made good progress in most areas of the acquis. It has maintained a generally good pace of alignment of legislation throughout this period and has advanced on development of administrative capacity albeit at a slower pace.

Over the past year, Bulgaria has continued to progress in terms of legal alignment and administrative capacity, with an acceleration of efforts on judicial reform.

Overall, and in view of Bulgaria’s target date for accession, Bulgaria has achieved a reasonable degree of alignment with the acquis in many areas. Administrative capacity has also developed, although significant further efforts remain to be made. More attention needs to be paid to how laws will be implemented and enforced. In this regard, progress on public administration and judicial reform needs to be sustained.

Regarding the internal market, Bulgaria has made further progress in most areas. In free movement of goods, progress continued with amendments to the Law on Standardisation, which remove conflicts of interest between standardisation and regulatory functions and/or certification. Considerable efforts are still needed to reinforce administrative infrastructure for standardisation and certification and to systems for national conformity assessment and market surveillance. The new Public Procurement Act is a further step towards implementation of the acquis, but is not yet fully aligned. This and enforcement, in line with the principles of the acquis, needs to be ensured. As regards food safety, a considerable amount of legislation has been transposed but efforts need to be pursued to ensure proper implementation and enforcement of the acquis. Reinforcement of administrative capacity is still needed, notable laboratory upgrading and accreditation. On the freedom to provide services, Bulgaria has developed sound banking supervision practices. It has made good progress in implementing the banking acquis but is less advanced in the field of insurance and securities. The establishment of the Consultative Council for Financial Sector Supervision is a further step in the right direction. Bulgaria has made progress on legal alignment with the acquis on data protection but needs to ensure full alignment with the acquis and take steps to put administrative capacity in place to implement and enforce this.

Company law has been further aligned but still needs to be brought fully into line with elements of the acquis, especially on acquisitions, mergers and divisions of companies. On the legal framework for protecting intellectual and industrial property rights (IPR), there have been further improvements but steps need to be taken to ensure this is enforced at borders and that law enforcement bodies and the judiciary are trained to handle IPR matters. On competition policy, important progress has been made with the entry into force of the Law on State Aid. Further efforts are now needed to develop a credible state aid enforcement record. On anti-trust, Bulgarian legislation is largely in line with the acquis. Bulgaria needs to continue to build a record of effective application and enforcement of rules. The restructuring of the steel sector will need to be closely monitored.

For customs and taxation, Bulgaria still needs to develop IT systems that allow for exchange of data with the EC. As regards strengthening of administrative capacity, in customs, implementation of reforms is progressing, but there has been limited progress in the reform of tax administration.

Bulgaria has progressed in aligning with the telecommunications acquis. Efforts should focus on completing transposition, speeding up effective implementation, and enhancing the capacity of the regulator.

In agriculture, approximation of legislation in the veterinary and phytosanitary sectors has progressed well. Further efforts are still necessary in the transposition of the acquis. However, substantial efforts will be necessary to develop the necessary administrative, inspection and control mechanisms, in particular to ensure enforcement of veterinary/hygiene control standards. Progress on fisheries has continued, but Bulgaria needs to take further measures to ensure full compliance with EC hygiene and health requirements.

On social policy and employment, some progress has been made But considerable further work remains on legal transposition in the areas of labour law, equal opportunities, anti-discrimination policy and health and safety at work. Social dialogue in line with EC practice needs to be fostered.

Concerning regional policy, Bulgaria has made progress in preparing for the implementation of structural policies with the adoption of a strategy for structural funds, which clarifies the institutional structure for structural and cohesion fund assistance. Bulgaria needs to focus efforts on strengthening capacity for future implementation of structural funds in key ministries, including appropriate control, monitoring and evaluation mechanisms. Bulgaria still needs to prepare a coherent development plan as required by the structural funds regulations and integrate it into the national budgetary and policy-making framework.

Bulgaria has continued to transpose the environmental acquis with the adoption of the Environmental Protection Act. Efforts are needed to prepare directive-specific implementation plans and financing strategies, on environmental investments, and to further elaborate mechanisms to monitor effective implementation. Implementation remains a major challenge as is the need for increased administrative capacity and the cost of alignment.

Bulgaria has continued to make progress in aligning transport legislation with the acquis, notably in the road transport and the railway sectors. The newly-established administrative structures need to be strengthened. For maritime transport, the poor safety record of the Bulgarian fleet remains a cause for concern.

Bulgaria has stepped up progress in reforming the energy sector where restructuring had been slow in previous years. A new national energy strategy was adopted. The legislative basis for market opening has been created and privatisation of the distribution companies is under preparation. Bulgaria now needs to set clear timetables for restructuring of the energy sector. Bulgaria must respect closure commitments for Kozloduy NPP and ensure a high level of nuclear safety.

In justice and home affairs, Bulgaria made good progress in aligning with the acquis in most areas. It has adopted an action plan for the adoption of Schengen requirements. However, a major effort is still needed in order to strengthen implementation capacity.

Substantial progress has been made in strengthening financial control with the entry into force of the new laws on Public Internal Financial Control and the National

Audit Office. Bulgaria should focus now on strengthening the required institutional structures, including for the protection of the EC financial interests.

Bulgaria still needs to make sustained efforts to develop sufficient administrative and judicial capacity to implement and enforce the acquis. As well as continuing horizontal reform of the public administration, it needs to focus in particular on developing the capacity to be part of the internal market and to apply the acquis in areas such as agriculture, environment and regional policy. Further efforts are also required to establish the necessary administrative capacity to ensure the sound and efficient management of EC funds.”

3.1 Chapters of the acquis

As indicated, the following review of Bulgaria’s ability to assume the obligations of membership has been structured in accordance with the list of 29 acquis chapters. Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the “four freedoms”, and continues with a systematic review of progress on each of the chapters, covering all aspects of the *acquis*, 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

Progress since the last Regular Report

In the area of **horizontal and procedural measures**, a number of legislative and administrative measures were taken, aiming in particular at separating certification activities (now performed by the Certification and Testing Agency) from accreditation activities (now performed by the Bulgarian Accreditation Service). The Law on technical requirements for products was amended in September 2002, amending earlier articles concerning high risk equipment. The State Agency for Metrology and Technical Surveillance was entrusted with authorising conformity assessment bodies.

Work has progressed well in aligning **sector specific legislation** with the *acquis*. In the areas covered by *new approach directives*, additional legislation has been adopted, which aims at transposing the *acquis* concerning non-automatic weighing instruments, electrical equipment designed for use within certain voltage limits, pressure equipment, as well as radio and telecommunications terminal equipment.

In the sectors covered by old *approach directives*, further progress can be recorded. The amendment to the Law on medicinal substances and pharmacies in human medicine, adopted in December 2002, and the amendment to the Veterinary Law, adopted in September 2003, represented further alignment with the *acquis*, notably as regards data protection for pharmaceutical products. Progress was also achieved in the transposition of the *acquis* on cosmetics and on motor vehicles, with the adoption of legislation on type approval of new motor vehicles and their trailers.

Concerning foodstuffs legislation (*see also Chapter 7 – Agriculture*), considerable progress was recorded. Several pieces of legislation have been adopted as regards honey, sugars, fruit beverages, dietetic foods, foods for special purposes, cocoa, low-calorie

weight-reducing diets, quick frozen foods, tobacco, and jams, which transpose most of the *acquis* on foodstuffs up to the year 2000.

Good progress has been made in the field of metrology, through the introduction of legislation on units of measurement, pre-packaged products and bottles used as measuring containers, aiming at transposing the *acquis* in these fields. The National Metrology Institute has been set up.

New legislation on the conditions and order for carrying out market surveillance was adopted in May 2003. Co-operation between customs authorities and those responsible for market surveillance has improved, in line with an amendment to the Law on customs of April 2003 (*see also Chapter 25 – Customs union*).

In the **non-harmonised area**, the principle of mutual recognition of conformity has not yet been introduced into Bulgarian legislation. Screening of legislation in the non-harmonised area has been carried out to verify that the legislation is in compliance with the principle of free movement of goods. Bulgaria states that no important barriers were identified during the screening exercise.

No new provisions have been adopted for the transposition of the *acquis* on cultural objects. The amendments to the Law on the control of explosive substances, fire arms and ammunitions entered into force in October 2002.

In the field of **public procurement**, the adoption of the new law is still outstanding and the administrative structure remains unsatisfactory.

Overall assessment

The Law on technical requirements for products introduces the principles of the new and global approach into the Bulgarian legal order and establishes the legal basis for the adoption of specific new approach directives. The law still requires some further technical amendments, notably as regards the CE marking.

By the end of 2002 the total number of transposed European standards was 5 880, which corresponded to 52 % of the standards. This acceleration of transposition of standards should be maintained in order to reach the 80 % of transposed European standards necessary to become a member of CEN and CENELEC in the second half of 2004 as foreseen by the Bulgarian authorities.

Regulation, accreditation, standardisation, certification and market surveillance functions are for the most part well separated. The executive agency Bulgarian Accreditation Service (BAS) is the national body for accreditation, under the Ministry of Economy. It has been a full member of European Accreditation (EA) since 2001 and is in the process of signing the MLAs (Multilateral Agreements in the field of Accreditation) for quality system certification and personnel certification. The Bulgarian Institute for Standardisation (BIS), operational since September 2002, is the national body for standardisation, with the status of an independent legal entity under the Council of Ministers. It needs to be further strengthened in order to meet all the requirements for CEN and CENELEC membership. The executive agency Certification and Testing (CT) is established under the Ministry of Economy (which could be a source of conflict of interest which BAS, as the latter is also under the Ministry of Economy). It is destined to

become a separate legal entity under the Law on commerce in the mid-term. Since May 2003, the State Agency for Metrology and Technical Surveillance (SAMTS) has been responsible, on the one hand, for the designation of conformity assessment bodies and, on the other hand, for market surveillance in the new approach sectors, except medical devices and construction products, for which the responsible authorities are the Ministry of Regional Developments and Public Works (construction products) and the Pharmaceutical Agency (medical devices).

Despite progress, the Bulgarian conformity assessment network is not yet fully developed to meet the requirements of the applicable conformity assessment procedures. For the time being, six bodies have been authorised by SAMTS (two for gas appliances, two for electromagnetic compatibility and two for toys).

In the field of foodstuffs, where the *acquis* up to 2000 has been transposed, Bulgaria now needs to proceed with transposing the *acquis* adopted from 2001 onwards and the novel foods legislation. Bulgaria should improve its institutional capacity to streamline horizontal institutions, to increase training programmes, to implement Hazard Analysis Critical Control Points (HACCP) principles, to upgrade and accredit laboratories and to increase the laboratories' scope of analysis. Bulgaria has started to intensify work in these areas but further efforts are needed. More efforts are needed to ensure appropriate control of genetically modified and novel food. Bulgaria still needs to remove the sanitary permits for imports.

In the field of public procurement, the situation is not yet satisfactory. The draft legislation that has been prepared still contains shortcomings that have to be dealt with in order to attain full alignment with the *acquis*. A weak administrative structure exists at central level in the area of policy and law making, co-ordination and provision of operational support, monitoring and control. Further efforts are required to ensure full alignment on the *acquis* and to establish an independent body with clearly defined status, functions and qualified staff able to effectively apply the national procurement legislation through monitoring, review and help desk activities.

Conclusion

Since last year's Regular Report, Bulgaria has continued to make good progress in the area of free movement of goods, including such areas as foodstuffs and pharmaceuticals.

Legislative alignment and administrative capacity in the field of industrial products are steadily improving. However, efforts are still required to further improve the overall administrative capacity, in particular as regards market surveillance, food safety and metrology. Bulgaria needs to address urgently the delays incurred in aligning with EU public procurement rules. Efforts are also required as regards the establishment of an independent body that would ensure effective implementation of the rules.

Negotiations on this chapter have been provisionally concluded. Bulgaria did not request any transitional arrangements in this area. It is meeting the majority of the commitments it has made in the negotiations on this chapter, but a delay has occurred in implementing EU public procurement rules.

Chapter 2: Free movement of persons

Progress made since the last Regular Report

Some progress can be reported on **mutual recognition of professional qualifications**. The adoption of the amendments to the law on vocational education and training in November 2002 aims at establishing a clear distinction between academic and professional recognition. The Law on the Chamber of Architects, adopted in February 2003, defines the structure, organisation and activities of the Chamber of Architects and the general terms and conditions for recognising the profession.

In the area of **citizens' rights**, the law on the Ministry of Interior was amended so as to establish a special migration directorate to control the residence of foreigners and issue residence permits.

There are no particular developments to report in the area of **free movement of workers**. Preparatory work has continued to facilitate Bulgaria's participation in the European Employment Services (EURES).

Bulgaria has continued to strengthen bilateral relations with a view to the future **co-ordination of social security** matters and is currently preparing bilateral agreements with Austria, Poland, Cyprus and Croatia covering health insurance, pensions, unemployment benefits and family allowances.

Overall assessment

With the definition of regulated professions in the law on higher education, as amended in May 2002, Bulgaria has made some progress in aligning with the provisions on mutual recognition of qualifications, notably as regards architects. However, the principles of the general system of recognition are not yet in place and implementation is therefore at a rather early stage. Other outstanding issues include alignment with EU legislation on lawyers, doctors, nurses, midwives, pharmacists, veterinarians and commercial agents.

Further work should ensure that, by accession, all Bulgaria's legislation is aligned with EU rules, in particular with respect to nationality, residence and language requirements. Legislation on mutual recognition needs further monitoring to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow the provision of services. With respect to professional qualifications obtained before harmonisation, Bulgaria should continue to take measures to ensure that its professionals can, as of accession, meet the requirements laid down by the directives. Curricula and training will need to be adjusted in the remaining cases to ensure full compliance with the sectoral directives.

Bulgaria has made progress in aligning with the *acquis* on citizens' rights. However, since the recent amendments to the Constitution do not complete the transposition of *acquis* on voting rights, a further amendment will be needed to allow full alignment with the *acquis* in this area.

In the area of free movement of workers, Bulgaria has strengthened its administrative capacity, but needs to undertake further efforts to ensure full implementation of the

acquis by accession, including the social and cultural integration of migrant workers and their families.

As regards future participation in the European Employment Services (EURES), efforts should continue, especially with regard to language training.

With a view to the future co-ordination of social security systems, Bulgaria must ensure that it will have achieved the required level of financial stability needed in order to meet the additional costs arising from the application of the Community provisions, in particular in the health care field. Bulgaria should develop administrative structures, in particular training and reinforcement of staff to apply these provisions by the time of accession. Furthermore, Bulgaria is encouraged to continue its efforts to conclude further bilateral social security agreements, in particular with Member States, as they normally rely on the same principles as the EU rules in this field.

Conclusion

Since last year's report, Bulgaria has made limited progress in aligning with the *acquis* in this area. It has continued to strengthen its administrative structures.

Considerable further work is needed to achieve full alignment, in particular in the field of mutual recognition of qualifications (especially as regards curricula and training requirements), and to provide for the establishment of the necessary administrative bodies by the time of accession in order to meet the requirements for full implementation of the *acquis*, also with regard to the future co-ordination of social security systems. Additional efforts should also be focused on ensuring that national legislation is in line with EU rules on nationality, residence and language.

Negotiations on this chapter have been provisionally concluded. Bulgaria did not request any transitional arrangements in this area. Bulgaria has agreed to a transitional arrangement in respect of the free movement of workers. Restrictions on the movement of workers from Bulgaria to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 3: Freedom to provide services

Progress since the last Regular Report

In the field of the **right of establishment and freedom to provide services**, Bulgaria has made substantial progress as regards the general non-discriminatory regime of national treatment for foreign nationals and companies performing economic activities in Bulgaria. A number of laws regulating the right of establishment have been amended: the law on foreigners (as well as its implementing provisions), which eliminates the requirement to create ten jobs for Bulgarians in order to qualify for a long-term residence permit, the law on control of foreign trade activities in arms and dual-use goods and technologies, and the law on chambers of architects.

In the field of **financial services**, the law on bank deposit guarantee was amended in December 2002. Bank deposits of up to BGN 15 000 (approximately €7 500) are guaranteed by the deposit guarantee fund in case of bank bankruptcy. The law on banks

was amended in September 2002. The amendment aims at improving the transparency of shareholder ownership and of the structure of banks. In addition, several provisions on prudential requirements have been introduced, concerning better definitions of the capital base and currency risks.

Amendments were made in October 2002 to the law on insurance, introducing some provisions of the 2nd and 3rd generations *acquis*. In addition, the amounts of third-party liability compensation in the area of motor vehicles were increased in line with Bulgaria's commitments. Implementing legislation has been amended and adopted under the law on public offering of securities.

The Bulgarian National Bank obtained broader powers to investigate the identity and suitability of direct and indirect shareholders of banks. The Law on Financial Supervision Commission was adopted in January 2003, aimed at ensuring unified supervision over insurance, securities and pension funds.

As regards **personal data protection**, Bulgaria ratified in September 2002 the Council of Europe Convention for the protection of individuals with regard to automatic processing of personal data.

As regards the **information society**, Bulgaria ratified in June 2003 the European Convention on the legal protection of services on conditional access.

Overall assessment

In the field of the right of establishment and freedom to provide services, the amendments made in particular to the Law on foreigners are a good step towards eliminating discriminations. However, the Law on foreign investment still imposes a permanent residence permit on EU nationals who wish to perform economic activities in Bulgaria. Amendments are also required to the Law on gambling in order to revoke the existing discriminatory requirements regarding investment and creation of jobs. Bulgaria should complete the screening of all the relevant legislation in order to identify and eliminate provisions with discriminatory effect in the area of right of establishment and free provision of services. A report with the results of the screening exercise should be provided to the Commission.

As regards banking services, legislative efforts were made since the last report, but work remains to be done, notably to transpose the *acquis* on e-money, capital adequacy and branch accounts. The ranking upgrade of a series of banks by international credit-ranking agencies reflects the improvement of the overall economic environment and the performance of these commercial banks. As regards banking supervision, the Bulgarian National Bank has made significant efforts to achieve full compliance with international standards and the *acquis*. These efforts have resulted in a further improved capacity to oversee the commercial banks. In addition, the Bulgarian National Bank has broad powers to investigate the identity and suitability of direct and indirect shareholders of banks. In order to achieve effective consolidated practices on the banking side, the methodology of prudential reporting should be improved, in particular market risk reporting.

As regards the rest of the financial services, most of the *acquis* on insurance remains to be transposed and the *acquis* on securities remains to be completed. The establishment of

the Financial Supervision Commission is an important step towards strengthening supervision by an independent body, reporting to the Parliament.

The Law on data protection is not yet fully in line with the *acquis*, notably because the structure of the Law, the concepts and the criteria introduced in many cases are different from those of the *acquis*. Steps for further alignment should be taken.

The *acquis* on conditional access is only partly transposed. A Commission for personal data protection has been set up and its five members have been nominated by the National Assembly on a proposal of the Council of Ministers. The Commission satisfies the requirement of independence, but its capacity needs to be strengthened in terms of human resources, budget and premises. The EC Directive on e-commerce is not transposed as such, but it is partially transposed through several Bulgarian laws (Law on consumers and Law on contracts).

Conclusion

Since last year's Regular Report, Bulgaria has continued to make good progress in the area of right of establishment. Progress was also made in the field of financial services, in particular as regards financial supervision.

Enhanced efforts are required to further align the Bulgarian legislation with the *acquis*, notably in the field of banking, insurance and securities, as well as in the area of data protection and information-society services. Further efforts are also required in order to eliminate any remaining provision with discriminatory effect in the area of right of establishment.

Negotiations on this chapter have been provisionally closed. Bulgaria has been granted a transitional period until the end of 2009 as regards the investor compensation scheme, at the end of which it should reach the minimum level of coverage set out in the *acquis*. Bulgaria is essentially meeting the commitments and requirements arising from the accession negotiations on this chapter.

Chapter 4: Free movement of capital

Progress since the last Regular Report

In the field of **capital movements and payments** and in accordance with the commitments undertaken during negotiations, amendments to the Foreign Exchange Law were adopted in June 2003 (entering in force in July). These amendments replace the existing authorisation regime for capital flows by a simple declaration regime, which is compatible with the *acquis*.

In the field of **payment systems**, progress was made in the transposition of the *acquis*. A Bulgarian National Bank regulation adopted in May intends to transpose legislation on cross border transfers. Work remains to be done in order to transpose the Directive on Settlement Finality and the Recommendation on Electronic Payment Instruments. Bulgaria still needs to establish an out-of-court redress scheme to deal with the settlement complaints between banks and their customers.

After the recent amendments introduced in the Law on measures against **money laundering** (entry into force April 2003), Bulgarian legislation complies with the *acquis*.

Overall assessment

In the field of capital movements, liberalisation in line with the *acquis* is now almost complete. The remaining restrictions concern the acquisition of land by non-residents, for which transitional periods have been granted, and the full harmonisation of prudential rules relating to the investment in foreign assets by institutional investors.

In the field of payments systems, work remains to be done in order to transpose the *acquis* on settlement finality and on electronic payment instruments.

As far as administrative capacity is concerned, the Ministry of Finance and the Bulgarian National Bank are responsible for supervising foreign exchange and collecting statistical data.

The provisions on money laundering have been reinforced with the law on foreign exchange, which obliges banks to report all their transactions. Compliance with anti-money laundering *acquis* has now been achieved. Implementation structures have been reinforced by the recruitment of additional experts in financial analysis, new software tools and the appointment of liaison officers for the Ministry of Interior and Prosecution Office.

Conclusion

During the past year Bulgaria has made good progress, in particular in the field of capital movements and payments and anti-money laundering legislation, and in further developing and implementing payment systems.

Attention must be paid to the adoption of legislation in the field of capital movements and payment systems. In the fight against money laundering, now that compliance with the *acquis* has been achieved, efforts should be continued to improve the effectiveness of the system.

Negotiations on this chapter have been provisionally concluded. Bulgaria was granted transitional periods concerning the acquisition of land for secondary residences by EU citizens (for a period of five years following accession), and concerning the acquisition of agricultural land, forests and forestry land (for a period of seven years following accession). Bulgaria has accepted the condition that self-employed farmers who want to establish themselves and reside in Bulgaria are excluded from the scope of the transitional period. Bulgaria is essentially meeting the commitments it has made in the accession negotiation in this field.

Chapter 5: Company law

Progress since the last Regular Report

Regarding **company law** as such, amendments to the Law on commerce were adopted in June 2003, bringing about further alignment with the *acquis*

In the area of **accounting**, international accounting standards have been in use since January 2003 by banks, insurance companies, investment and insurance enterprises and by the companies listed on the stock exchange, and will be mandatory as from January 2005 for all other companies.

Concerning administrative capacity, the Institute for certified public accountants, which is a professional non-governmental organisation to which registered auditors belong, has continued to intensify its activities in relation to independent financial audit of companies' annual financial statements. During the reported period, the Institute licensed 50 additional auditors, which brings to 560 the number of auditors who have been licensed up to now.

In the field of **intellectual property rights**, the law on copyright and related rights was amended in January 2003. The amendments notably introduce legal protection of databases, including *sui generis* protection, and address several aspects of EC provisions on copyright and related rights in the information society. However, several substantive provisions need further adaptation. Regarding **industrial property rights**, amendments to the Code of Civil Procedure, adopted in October 2002, introduced new provisions as regards infringements to registered trademarks, industrial design and geographical indication rights, introducing "summary proceedings" to be followed by courts.

On the basis of the amendment to the Law on customs of April 2003, the customs authorities have acquired explicit functions and tasks related to the enforcement of border measures aimed at protecting intellectual and industrial property rights (*see also Chapter 25 – Customs union*). Together with organisations representing right holders, the National Customs Agency has organised a number of training activities, in which judges, prosecutors and customs officials have taken part.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession, and accession to the **Rome Convention** will only be possible upon accession. The Law on obligations and contracts was amended in February 2003 in order to introduce the main principles of the Rome Convention (*see also Chapter 24 - Justice and Home Affairs*).

Overall assessment

Bulgaria has to a very large extent aligned its legislation with the 3rd, 6th and 12th Directives. Transposition needs to be completed, however, especially with regard to the 1st, 2nd and 11th Directive where some inconsistencies with the *acquis* still remain.

Companies are registered in the commercial register, which is kept within the 28 regional courts. Progress is being made in this area, due to the updated Strategy for Reform of the Judicial System and the Action Plan for its implementation. From these initiatives, a further improvement of the work of the judicial system can be expected, including towards the work of the courts on enforcement of commercial law.

Bulgaria's legislation on accounting has been adapted with the aim of reaching full alignment with the *acquis*.

The laws on protection of intellectual and industrial rights are largely in line with the *acquis*, also as regards the *sui generis* protection of databases. However, some amendments are still needed in order to achieve full compliance. Legislation remains to be adopted on the supplementary protection certificate for medicinal products and plant protection products, as well as on biotechnological inventions. The *acquis* on broadcasting via satellite needs to be further transposed.

The authorities responsible for the protection of intellectual and industrial property rights are the Ministry of Interior, the Patent Office, the Ministry of Culture, the National Customs Agency and the judiciary. Work is being done in order to enhance cooperation between these bodies.

The enforcement of intellectual and industrial property rights is improving, but the levels of software piracy and counterfeiting still give rise to concerns, although Bulgaria is no longer a major location for the manufacturing of pirated products. The bulk of confiscated goods were made outside Bulgaria. Enhancement of the administrative capacity of enforcement bodies, including controls on cross border trade of pirated goods, remains a matter of priority. In this respect, the amendment to the Law on customs is a step in the right direction. Training for law enforcement authorities, including judges and prosecutors, should be intensified.

Conclusion

Bulgaria has continued to make good progress in all areas relating to company law.

Bulgaria should continue its efforts aiming at combating piracy and counterfeiting, in particular through strengthening border controls and improving coordination between customs, police and judiciary on enforcement on intellectual and industrial property rights. Legislative alignment needs to be completed in all areas.

Negotiations on this chapter are provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Special transitional rules will apply in relation to pharmaceutical product patents, involving the non-applicability of Community exhaustion to certain exports from Bulgaria, as regards the granting of supplementary protection certificates for medicinal and plant protection products, as well as in relation to the extension of registered or pending Community trademarks to the territory of Bulgaria. Bulgaria is generally meeting the commitments it made in the accession negotiations in this field.

Chapter 6: Competition policy

Progress since the last Regular Report

In the **anti-trust** sector, amendments to the Law on the protection of competition were adopted in January 2003. They introduced a number of concepts closer in line with Community rules and strengthened the investigative powers by allowing for on-site inspections. In addition, implementing legislation in the form of two block exemptions for R&D agreements and specialisation agreements were adopted in June 2003. Some training of the judiciary, as well as awareness-raising activities, have taken place.

The *Commission for the Protection of Competition* (CPC), which is the national independent competition authority in Bulgaria, has continued to develop its anti-trust enforcement record over the reporting period. In 2002, the CPC adopted 68 anti-trust decisions, including restrictive agreements (13), abuse of dominant positions (17) and merger control (35), and leading to 5 prohibitions (all with fines). The CPC has also been active in the field of competition advocacy, e.g. by commenting on draft liberalisation legislation, and this work needs to continue.

In the area of **state aid**, amended implementing legislation for State aid was adopted in July 2003, setting out the substantive criteria for approving State aid measures. Bulgaria has proposed, for adoption under the Europe Agreement mechanisms, a regional aid map in line with the *acquis*. The annual state aid Report for 2002 was submitted by Bulgaria in July 2003.

The department of the Ministry of Finance responsible for monitoring state aid has developed a system of state aid contact points in the various ministries, as well as in the regions. The CPC, which is in charge of state aid control, adopted 48 decisions and delivered 7 opinions during 2002, which represents a clear increase compared to the previous year. However, the quality of the decisions needs to be considerably improved. Several measures have been taken to reinforce cooperation between the CPC and the Ministry of Finance. Measures have also been taken to ensure greater respect of the *ex ante* notification obligation, including awareness-raising campaigns, and screening by the Ministry of Finance of the state budget process.

Regarding steel, in November 2002 Bulgaria requested a prolongation of the period in which restructuring aid can be granted to the steel industry under specific conditions defined in Protocol 2 to the Europe Agreement. The prolongation of this so-called "grace period" is conditional on the adoption of a steel restructuring plan which comprises a national restructuring programme and individual business plans for those steel companies that have benefited or would benefit from restructuring aid after the "grace period" expires on 31st December 1997. The Bulgarian authorities still need to submit an acceptable steel restructuring plan to the Commission.

Overall assessment

As regards anti-trust, the overall assessment is positive. The Law on the protection of competition now contains the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. Nevertheless, some further fine-tuning of the rules appears to be necessary in order to ensure more efficient enforcement practice. Further strengthening of the Commission for the Protection of Competition should be achieved through advanced training, as well as focusing on competition-related activities, rather than issues of "unfair competition". Strengthening is also required in view of the decentralised application of Community anti-trust rules that will apply upon accession. Furthermore, the mandate of the current Commissioners originally expired in December 2002, and a new Commission was only appointed recently. The anti-trust enforcement record of the CPC is largely satisfactory. However, important further efforts should be made to follow a more deterrent sanctioning policy and to put more emphasis on preventing serious distortions of competition. Continued efforts are also needed in relation to competition advocacy, awareness raising and training of the judiciary.

As regards state aid, there is still a lack of sufficient enforcement record. The Law on State Aid provides a good procedural framework for the control of state aid. The recently amended substantive implementing legislation is a step forward, but does still not fully respect the *acquis* in areas such as rescue and restructuring aid and aid to large investments. The CPC has broad powers to enforce state aid rules, but it needs to considerably enhance its expertise in the area of state aid and to improve the quality of its state aid decisions. Whilst there have been improvements in the cooperation between the CPC and the Ministry of Finance, better pro-active cooperation should be encouraged. Awareness-raising and training activities need to continue. Annual reports have been submitted for the years up until 2002, and the quality of the latest reports is good. Nevertheless, it still needs to be ensured that the report and inventory are fully comprehensive, also as regards fiscal aid measures. Efforts need to continue in order to ensure *ex ante* notification of all new measures, including fiscal exemptions, payment deferrals (tax, social security, debts) and measures in connection with privatisation. The CPC needs to continue the assessment of all aid schemes that existed prior to the entry into force of the Law on State Aid in June 2002, and to ensure that these schemes are brought in line with the Law, in particular in the field of fiscal aid. Aid to the so-called sensitive sectors and to the coal sector needs to be fully controlled, especially as regards payment deferrals and restructuring, and a steel restructuring plan in line with the provisions of the Europe Agreement needs to be submitted to the Commission.

Conclusion

Since last year's Regular Report, Bulgaria has made further progress in the area of competition policy.

Bulgaria has achieved a largely satisfactory level of alignment with the EC anti-trust *acquis*, but should ensure the continued development of a track record of proper enforcement. As regards state aid, Bulgaria has not yet completed its legislative alignment. Bulgaria also needs to develop a credible state aid enforcement record, which also requires improving its administrative capacity to implement the state aid control system.

Negotiations on this chapter continue. Bulgaria has not requested any transitional arrangements in this area.

Chapter 7: Agriculture

Progress made since the last Regular Report

The share of the agricultural sector in the overall gross value added in Bulgaria has continued to decrease from 13.8% in 2000 and 13.4% in 2001 to 12.5% in 2002⁷. In 2002, due to large exports of cereals, Bulgaria's agricultural exports⁸ to the EU grew from €247 million to €386 million, giving it a trade surplus of €109 million (as against a

⁷ The source for all agricultural statistics is EUROSTAT unless otherwise specified. Figures for 2002 are preliminary.

⁸ Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12/15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI / G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89.)

deficit of €45 million in 2001). Apart from cereals and oil seeds, key EU imports were dominated by meat and offal products. EU food exports were dominated by meat and animal fats and oils.

Since the last Regular Report, Bulgaria has continued to further develop its agricultural policy. The budget allocated to agriculture in 2002 has increased by 22% to €180 million.

The Ministry of Agriculture and Fisheries (MAF) continued to pursue strategies and actions for priority sectors identified in the 2001-2005 government programme. An assessment of progress made and a refinement of short-term actions for 2003 were presented in the 2002 Annual Report of the MAF. In July 2003, the Ministry of Agriculture and Forestry presented a special report halfway through the governments four-year mandate. The report presented achievements in fields such as support from the State Fund Agriculture for those agricultural producers observing quality standards and other legal requirements, SAPARD Programme implementation in Bulgaria, EU integration, plant growing, animal breeding, forestry and land related issues. The report also referred to the main objectives for the second half term of the Ministry including the Agricultural Census in 2003, the finalisation of the negotiations on Chapter 7 “Agriculture” in 2004 and the fulfilment of the commitments on veterinary and phytosanitary issues.

Several consultative councils to the Minister of Agriculture and Fisheries covering the most important and sensitive agricultural sectors such as milk and dairy products, grain, feed, poultry, meat are now in operation. Their role is to facilitate decision taking in the relevant areas by the Minister.

A special Programme for the development of agriculture in the Rhodope Mountain was adopted by the Council of Ministers in 2003. A Programme for the development of agriculture in North-West Bulgaria has been prepared.

The first stage of the land reform, i.e. the process of restitution of agricultural land, was completed in 2001. At the end of 2002, 92% of woodlands and forests had been restituted. Further work has been done in establishing a land parcels register (agricultural cadaster) and a computerised geographical information system for graphical display and register of agricultural land and forestry regions, which are now almost completed. The second phase of the land reform, i.e. the consolidation of land, has started. In this context, legislation was adopted allowing for different possibilities to consolidate land such as renting or leasing of agricultural land in government property and the exchange of land. Other work has included creating a legal basis defining the land ownership bodies and extending the competence and staff of the Ministry of Agriculture and Forestry in this context. The increased number of transactions and the slowly rising prices indicate that the land market is gradually developing although from fairly low levels. Fragmented agricultural land, shared ownership and cases of unclear limits of land plots as well as low profits in the agricultural sector are still leaving agricultural land under-exploited and are leading to under-performance of the land market.

With regard to agricultural price policy, this was almost fully liberalised in 2002. There were only a few exceptions, including the state guarantees of tobacco buying-in and subsidies for wheat, quality milk, tomato and pepper producers. The Farmers Support Act authorises the State Fund Agriculture (SFA) to intervene on the agricultural markets, by buying-in agricultural products produced at intervention prices based on annual decisions

of the Council of Ministers. Implementing legislation has been adopted that establishes the procedures and conditions for buying-in and for possible subsequent sale of the agricultural products by the intervention agencies.

Horizontal issues

The Bulgarian authorities envisage the establishment of Paying and Intervention Agency in line with EU requirements within the State Fund Agriculture by the year 2005. It will constitute a single Paying and Intervention Agency, channelling both EAGGF funds and national funds for support to agricultural producers.

Bulgaria does not yet have a system for the administration and control of payments similar to the Integrated Administration and Control System (IACS), but declared as its objective to have the IACS system in operation by 2005. The key registers on which the IACS system will be built, are being created and computerised. They include the statistical register of agricultural producers and holdings; the alphanumerical system for the identification and registration of animals; the identification system for agricultural parcels. The agricultural cadastre including the corresponding computerised geographical information system is almost completed. It will form the basis for unification of all IACS elements.

Bulgaria has taken the necessary legislative and institutional steps for a comprehensive agricultural census, which started in July 2003 and is to be completed in 2004. The data will be a key input for determining Bulgaria's baseline for participation in the Common Agricultural Policy.

Bulgaria has made progress in aligning its legislation with the *acquis* on *quality policy* and has committed itself to set up the relevant regulatory body by the end of 2004. Concerning *trade mechanisms*, recent amendments to the Farmers Support Act (in force since 15 October 2002) established the legal basis for the introduction of export licences and a system for granting export refunds. Relevant implementing legislation establishing the rules and conditions for export licences has already partly been adopted.

Organic farming is an area gaining increased attention. Following adoption of relevant legislation based on EU requirements, the first certification and control body for organic products (including on designation and labelling) was accredited in July 2003 and is to start operations shortly. The Ministry of Agriculture adopted a National Environment Agriculture Programme in April 2003, which includes promotion of organic farming.

Further work to prepare for the full implementation of the *Farm Accountancy Data Network* (FADN) in 2005 was carried out including gathering information and testing the system for 60 holdings in 2002 and launching the survey of 300 holdings in 2003 (the FADN is to include 2000 holdings in 2005).

Common market organisations

Feasibility studies for the alignment and implementation of CMOs in the wine, meat and fisheries sectors have been conducted in 2002. The studies cover legal, institutional and economic aspects and include proposals on how to introduce CMOs in Bulgaria. Action plans for the introduction of a common organisation of markets in all main agricultural sectors have been prepared.

With regard to *arable crops*, further implementing legislation in relation to market intervention by the State Fund Agriculture was adopted in July 2003 establishing grain quality requirements and grain quality control for bought-in crops. In November 2002, the Grain Consultative Council adopted a Sector Development Strategy which promotes growing of high-quality wheat, regulation and stabilisation of the grain and flour market and improvement of economic ties among producers.

As regards specialised crops, in the *fruit and vegetables sector*, no new legislation has been adopted. In the tobacco sector, legislation was passed for the establishment of an institute for tobacco and tobacco products as well as on setting minimum prices for tobacco sales. A national strategy for the tobacco sector was adopted in March 2003, which aims at encouraging an increase of tobacco production reaching 77 000 t of unprocessed tobacco produced in Bulgaria at the time of accession. The government decided to implement a mechanism in 2002 to compensate producers for the low quality of tobacco, which was due to unfavourable weather factors and new requirements for tobacco growing. Within the Tobacco Fund a new Directorate for “European integration, international co-operation, trade and markets” was established in 2002 and additional staff hired both at national and regional level in the first half of 2003.

In the *wine* sector, new implementing legislation regarding the determination of the contents of wine products has been adopted. A National Strategy for the development of vineyards and wine production has been developed including the establishment of a consultative committee and measures to encourage Bulgarian producers of grapes and wine to register as agricultural producers. A new and additional financial support scheme was introduced for wine producers in 2003. To counteract the significant illicit production of wine and spirits, zero excise duty on wine was introduced on 1 January 2003. The setting up of a vineyard register is still at an early stage.

In the *milk sector*, Bulgaria presented an action plan in October 2002 addressed to farms producing raw milk and processing establishments, which, amongst others, foresees the introduction of a system of subsidies for milk that meets certain quality standards.

In relation to *animal products*, in the meat sector, amendments to the Animal Breeding Act have been adopted which enable the adoption of implementing legislation on rules for carcass classification and price reporting.

Rural development and forestry

Further good progress has been made in the implementation of the SAPARD programme, which is Bulgaria’s main instrument for Rural Development (*see part A.2 of this report – Relations between the European Union and Bulgaria*). The administrative capacity of the SAPARD Agency was strengthened by the recent appointment of twenty-eight new employees. Apart from SAPARD, the government initiated a programme for alternative farming in the Rhodope Mountains, special projects to develop the LEADER+ method and two further programmes for regions with specific natural constraints.

With regard to *forestry*, the recent modification of the Forestry Act and adoption of further implementing legislation has allowed aligning with the *acquis* on the protection of forests against fire. Bulgaria has prepared a national forest policy strategy.

Veterinary and phytosanitary issues, including food safety

In the **veterinary** sector, a large amount of implementing legislation in view to transposing the *acquis* has been adopted in the fields of animal health, public health and animal welfare.

In the field of *TSEs and animal by-products*, Bulgaria has taken a number of actions in the field of BSE epidemiological surveillance, Specified Risk Materials (SRM), rendering systems and feed ban. A new BSE laboratory was established at the National Veterinary Service (NVS) in Sofia and is now almost fully equipped and two further laboratories at regional level are currently being equipped. Training in relevant subjects was carried out for inspectors of the NVS. However, the BSE surveillance system introduced in 2001 and application of it only partially meets Community requirements. SRM control measures are not adequate yet and rendering capacity of *animal waste* is still low and insufficient in Bulgaria.

Further progress was made on the *animal identification* and animal holding *registration* with the completion of the technical structure of the computerised animal registration system, which is now also accessible from all regional offices of the NVS. Data entry into the system is ongoing with almost 50% of all identified bovines already registered in the computerised database by March 2003. Identification of small ruminants has started with 60% of the small ruminants ear-tagged by March 2003. A system of certification of internal movements is in place for animals and animal products. The construction of Kapitan Andreevo on the border with Turkey, the most important border inspection post, was completed in November 2002. In the first half of 2003, the installation and refurbishment of the premises of the BIP at Sofia airport was launched with national funds. A feasibility study for the upgrading of the remaining long-term border posts is ongoing.

In the milk sector, additional legislation was adopted with regard to hygiene requirements for the production of raw milk. In October 2002, Bulgaria presented a national action plan (2002-2009) for meeting the EU requirements in farms producing raw milk and processing *establishments*. Farms and milk establishments will be classified into three groups according to their compliance with standards and to the quality of milk produced. During checks conducted in early 2003, the Bulgarian National Veterinary Service closed down (on a temporary basis) more than 100 local dairy farms over failure to comply with EU sanitary and quality standards. To date, a majority of milk establishments do not produce according to quality standards. The process of upgrading of meat processing establishments is progressing in accordance with the national plan. By the end of 2003 establishments not meeting EU and national veterinary standards are planned to be closed. The National Veterinary Service has continued to monitor the National plan for upgrading of *establishments* under veterinary supervision. In early 2003, it closed down 15% of the inspected 1,500 food producing establishments, which failed to comply with European sanitary and quality standards. Further checks by the NVS are foreseen and non-compliance will lead to permanent closing down of establishment by the end of 2003. While measures have been undertaken to improve safety and hygiene standards of food processing establishments, a majority of them do not yet comply with national or EU requirements.

Legislation on monitoring of *residues* has been partially transposed.

Further implementing legislation was adopted in the area of *animal welfare*, and progress was made with regard to animal welfare awareness.

Further legislation was adopted in the area of *animal nutrition* with the passing of implementing legislation on the analysis for the official control of animal feeding stuffs and particular nutritional purposes of feeding stuff.

In the **phytosanitary** sector, notably in the sector of *plant protection* products, legislation was adopted on the authorisation of active substances and on biological testing for efficacy and residues of plant protection products as well as on the labelling of plant products.

Bulgaria has made progress in aligning legislation with the *acquis* on phytosanitary controls of *harmful organisms*, including establishing minimum conditions for carrying out of plant health checks on border inspection points. Equipping of most long-term border inspection posts (BIPs) is completed. Legislation on marketing of *seeds and propagating material* has been adopted. Administrative capacity at the National Service for Plant Protection (NSPP) was strengthened with the establishment of two new departments in charge of control of the market of plant protection products and phytosanitary control as well as the hiring of new staff for the plant quarantine laboratories. The NSPP took important steps towards the adoption a quality assurance system by appointing a quality manager to co-ordinate activities of quality assurance. Training for border inspectors focused on the detection of quarantine pests upon import are ongoing.

As regards food safety, further progress has been made in the adoption of implementing legislation. In order to improve co-ordination between the two Ministries in charge, i.e. Ministry of Health and Ministry of Agriculture, an Executive Food Safety Committee with several working groups was set up and became operational in 2002.

Overall assessment

Bulgaria has made good progress on horizontal issues in line with commitments made. With regard to the Integrated Administration and Control System (IACS), the key registers on which the IACS system will be built have been created and are being computerised. Increased attention now has to be given to design and development of an efficient IACS system.

Despite of progress made, Bulgaria is still at an early stage in the development of Common Market Organisations (CMOs). Further legislation has been adopted and action plans exist for all key sectors. As far as the implementation of the CMOs is concerned, further progress is needed in relation to sugar, fruit and vegetables and animal products.

Further progress has been made with regard to rural development through the increase of the number of accredited SAPARD measures, a essentially good implementation performance of the programme and the introduction of further government programmes in the field of rural development.

While progress has been made as regards land reform and the establishment of the agricultural land register and the related geographical information system, more needs to be done in relation to land consolidation in order to develop an efficient land market.

In the veterinary sector, the National Veterinary Service (NVS), as main responsible body, is an overall well structured (at national and regional level) and staffed

organisation. Staff levels have further increased in 2003 and NVS staff has followed specialised training. Further training is needed on the interpretation and the application of EU requirements especially at the regional level.

Concerning animal health and control of animal diseases, the situation in Bulgaria remains essentially acceptable although shortcomings still exist. As regards TSEs and animal by-products, progress has been achieved but shortcomings still exist. Effective control measures preventing specific risk materials (SRM) from entering the food and feed chain have not been fully introduced. Legislation on total feed ban is not transposed yet. The co-ordination between the National Grain Service and the NVS – both involved in animal nutrition control – demonstrated deficiencies.

Concerning BSE epidemio-surveillance, notably testing capacity of the laboratory network needs to be improved in order to be able to deal with a full-scale active surveillance programme in line with EU requirements and responsibilities and tasks of all parties involved in detection and notification of clinical suspects of BSE must be clarified.

As regards animal by-products, considerable work is still ahead to meet EU requirements. Bulgaria is at an early stage in the development of a rendering plant for high-risk materials. Existing rendering plants for low risk material do not correspond to EU hygiene standards. Official controls must be enforced to ensure the correct flow of the different animal waste. Feed ban needs to be brought in line with Community legislation and official controls targeted at the risks of cross-contamination and cross-feeding of ruminants with prohibited processed animals proteins needs to be improved.

Regarding animal identification, registration and movement control, the computerised system needs to be completed with the entry of data for the remaining not registered bovines and for all identified small ruminants. Issues such as the use of metal instead of plastic ear-tags should be addressed. Certification documents for internal movements do not always contain the necessary guarantees to support export certification. Effective systems of controls and sanctions should be implemented. The programme of upgrading of seven of the overall eight long-term Veterinary Border Inspection Posts needs to be continued.

Concerning establishments, further work is needed to ensure a reliable implementation in all regions and food sectors of the upgrading plan in food production. This includes reviewing the upgrading plan and addressing deficiencies. Priority should notably be given to an efficient implementation of the plan for the upgrading of milk farms and milk processing establishments.

Concerning animal welfare, most premises and lorries for animals do not meet EU requirements and enforcement of animal welfare rules needs to be improved.

In the phytosanitary sector, harmonisation with the *acquis* is well advanced. However, further efforts are needed with regard to the implementation of phytosanitary requirements including notably the strengthening of administrative capacity. Despite of further measures taken to enhance its capacity, the National Service for Plant Protection still lacks sufficient equipment, adequate numbers of qualified staff and operational budget to adequately fulfil its tasks. Further implementing legislation needs to be adopted in the area of control and certification of seeds and propagating material.

In respect of food safety standards, alignment with the *acquis* has further progressed well. While implementation of legislation is improving, including through the establishment of co-ordination mechanisms for the different institutions involved, further efforts are needed to ensure meeting EU requirements. In order to strengthen administrative capacity, further equipment for food safety control laboratories and training of relevant staff is needed. Co-ordination between the NVS and the Hygiene and Epidemiological Inspectorate and the Chief Directorate of Feeding Stuffs Control also needs further improvement and clear working procedures at field level need to be established.

Conclusion

Since the last regular report, Bulgaria has made considerable progress in adopting legislation in particular in the veterinary and phytosanitary sector. Administrative structures have been further consolidated and strengthened both at national and where applicable at regional level.

Substantial work is still ahead in order for Bulgaria to meet EU veterinary control and hygiene standards. Bulgaria should focus further efforts on enforcement of legislation, notably in the veterinary sector and develop the necessary administrative, inspection and control mechanisms. In relation to BSE epidemio-surveillance, dealing with a full-scale active surveillance programme in line with EU requirements will notably require improving testing capacity of the laboratory network. In the area of animal by-products, Bulgaria needs to take decisive action in improving existing rendering plants for low risk materials and establishing installations for high-risk materials. With regard to food safety, administrative capacity and co-ordination between institutions need to be improved and the plan for upgrading of food processing establishments needs to be reviewed. Further efforts are also needed with regard to the establishment of administrative structures, which are to implement the common market organisations. Attention must be given to the design and establishment of an efficient IACS system and to the development of the required administrative capacity.

While negotiations on this chapter continue, the majority of questions in the veterinary and phytosanitary part of the negotiations have been cleared at the end of 2002.

Chapter 8: Fisheries

Progress made since the last Regular Report

In the area of **resource and fleet management** and **inspection and control**, the National Agency for Fisheries and Aquaculture (NAFA), in charge of management of commercial and recreational fisheries in Bulgarian waters, has further improved its administrative capacity by increasing staff and training. The Executive Agency for Maritime Administration (EAMA) and the NAFA signed a co-operation agreement in order to fulfil the obligations on control of fishing vessels in accordance with the Fisheries and Aquaculture Law and with the Merchant Shipping Code. Amendments to the Merchant Shipping Code were adopted in November 2002, aiming at aligning Bulgarian legislation to the *acquis* on European maritime safety standards and allowing the subsequent adoption of implementing legislation on such matters as procedures for data entry into the Fishing Vessel Register, measurement of seagoing vessels and rules for ship documents. A registration system for every fishing and fish breeding activity was set up and became

fully operational in 2002 (including relevant logbooks and documentation). The registration system has enabled the development of an information basis for the structure and quantities of the fish resources and the biomass. In 2002, 5 100 licenses for commercial fishing were issued and 120 fish breeding sites were registered. Specialised software and a database for the Fishing Vessel Register (FVR) have been devised. In 2002 NAFA inspection officers identified 1 219 infringements of the law on Fisheries and Aquaculture and took measures. The NAFA has also carried out restocking activities, notably at the Danube River, in order to maintain the fish population of endangered species and the biodiversity of water basins. No progress can be reported on the installation of the Vessel Monitoring System.

In the field of **structural actions**, the SAPARD Agency within the State Fund Agriculture was appointed future Managing and Paying Authority for, *inter alia*, Financial Instrument for Fisheries Guidance (FIFG) funded measures. Amendments to current SAPARD measures should allow for increased support for the fishery sector and further preparation for the introduction of the Common Fisheries Policy (CFP).

As regards **market policy** and **state aid** to the fisheries sector, there are no new developments to report.

As regards **international fisheries agreements**, Bulgaria has resumed its membership of the North-West Atlantic Fisheries Organisation (NAFO). The outstanding payments for 2001 and 2002 were settled. As a result Bulgaria regained its voting rights in NAFO. The free trade agreement on fish and fishery products, negotiated between the EU and Bulgaria, came into force on 1 April 2003.

Overall assessment

As regards resource and fleet management and inspection and control, further adaptations of implementing legislation are still necessary concerning the vessel monitoring system and the collection and computerised retrieval of catch data. Despite a further substantial strengthening of its administrative capacity, the National Agency for Fisheries and Aquaculture (NAFA) still lacks adequate equipment and trained personnel to effectively carry out the necessary control activities. The Fishing Vessel Register needs to be completed and re-measurement of fishing vessels is not yet finalised. Training of personnel at the Executive Agency of Maritime Administration is underway. The Management plan for Bulgarian fleet capacity has yet to be adopted.

Further adoption of legislation in line with the *acquis* is needed in the area of structural actions, notably as regards the rules and procedures enabling the use and implementation of FIFG measures. Attention must be paid to ensure that administrative capacity is adequate to address the specific requirements on the Structural Funds regulations from accession.

In the area of market policy, Bulgaria will need to determine for which species it intends to introduce and implement the common market organisation, in particular, which producers' organisations it intends to create.. Following this assessment Bulgaria will have to adopt implementing legislation and develop adequate institutional and market structures. Progress will be needed with regard to the setting-up of producer' organisations, the establishment of an intervention agency, the setting-up of an information system necessary for the management and control of measures, and the

setting-up and maintenance of a system for the communication of information with the European Commission. Three organisations of fisheries producers that include some fish farmers and fishermen have been established, but their structure, organisation and functions are not in line with the *acquis*. On veterinary issues, official veterinary supervision has improved appreciably. However, especially in some regions, surveillance of fish diseases is still inadequate to address shortcomings noticed in export health certificates for fishery products and live fish.

Conclusion

Since the last Regular Report, Bulgaria has made steady progress.

Although implementing legislation on the Vessel Monitoring System still needs to be adopted, Bulgaria has achieved a reasonable degree of legislative alignment in the area of fisheries. With regard to resource management, inspection and control, work on the update of the Fishing Vessel Register needs to be completed. Further work is needed for the development of its market policy and infrastructure in line with the Common Fisheries Policy. Administrative capacity needs significant further strengthening. The technical capacity of inspection and control systems needs to be enhanced. Attention should notably be given, in particular, to inspection and enforcement, where the number of staff with sufficient powers is not yet adequate. Measures ensuring compliance with EU hygiene and health requirements need to be enhanced.

Bulgaria has provisionally closed negotiations on this chapter and has not requested any transitional arrangements. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 9: Transport policy

Progress made since the last Regular Report

As regards **Trans-European Transport Networks**, the implementation of the updated Programme for Transport Infrastructure Development (2001-2005) is continued through a number of infrastructure and rehabilitation projects on European transport corridors. The executive agency “roads” drew up in 2002 a separate National Programme for Completion and Development of the National Road network.

In the **land transport** sector, progress has continued in all sub-areas. In the field of *road transport*, amendments to the Law on Roads were adopted in January 2003. They introduced a vignette system for collecting charges for use of the Bulgarian road infrastructure as of January 2004, and provided the legal basis for further alignment with the fiscal *acquis*. According to the above amendments, charges for Bulgarian and foreign-registered vehicles will be aligned as of January 2007. Since the last Regular Report, implementing legislation has been adopted with a view to further aligning the *acquis* in the areas of access to the profession of road transport operator, the requirements for the compulsory use of tachographs, and vehicle registration documents. As regards roadside inspections, the Executive Agency for Road Transport Administration, established in 2002, is in charge of licensing of transport operators, authorisation of roadworthiness test centres, training and testing of drivers and roadside inspections. Of

its current 533 employees, 210 are involved in roadside and premises checks. The agreement on the international Occasional Carriage of Passengers by Coach and Bus (Interbus Agreement) was ratified in November 2002.

On *railways*, Bulgaria has continued to align its legislation with the revised railway *acquis*. The executive agency for Railway administration is in place as a separate legal entity with budget funding by the Ministry of Transport. It is responsible for all issues related to railway transport (licensing, certifications, proposals for infrastructure fees, control on capacity allocation for infrastructure, traffic safety, etc). It has 50 employees. The independence of the allocation and charging function as well as the compliance of the infrastructure regime with the principles of the *acquis* remain to be ensured. So far, two requests for licences for operators from the private sector have been received (no licence has been awarded yet). On *inland waterway* transport, the law amending the Merchant Shipping Code was adopted in December 2002 (see maritime transport) . The Executive agency “study and maintenance of the Danube” controls the safety and security of inland waterways navigation. It employs 195 people.

As regards **air transport**, Bulgaria has made further progress concerning the establishment of common rules for a denied-boarding compensation in scheduled air transport and on aviation personnel licensing. Training efforts to improve the qualifications of the aviation administration personnel, in particular for staff of the Civil Aviation Administration (a directorate-general subordinated to the Minister of Transport) are continuing. The national carrier Balkan Airlines has been declared bankrupt. The new, state-owned, national flag carrier Bulgaria Air has since recommenced certain flights.

As regards **maritime transport**, good progress has been achieved with the adoption in December 2002 of amendments to the Merchant Shipping Code, which provide for the legal basis for completion of alignment. Provisions on the enlistment of ships in the registers of Bulgarian ports, on medical treatment on board vessels and on carriage of persons and goods between Bulgarian ports with ships flying foreign flags have been further aligned with the *acquis*.

The main administrative bodies are now in place. The executive agency “maritime administration” is responsible for the implementation and performance of Port, Flag and Coastal State control. It also performs different activities related to maritime safety in the marine spaces and inland waterways. It is staffed with 42 inspectors. The executive agency “port administration” is responsible for management of the ports, safety and security in ports and further activities of registration, statistical collection and control. It employs 70 persons. According to statistics for 2002 under the Paris Memorandum of Understanding, the percentage of Bulgarian flag vessels detained following Port State control was 9.57%, compared to 15.7% in 2001. This compares with an average for EU-flagged vessels of 3.5% in 2002. This sharp decrease in detention rates can be attributed to important efforts made by Bulgaria to improve the safety record, notably through the adoption (and start of implementation) of plans to strengthen the administrative capacity. This has entailed a large-scale training programme for the Bulgarian Flag State and Port State inspectors. In addition, the adoption of an action plan for safety and the scrapping of vessels should help to improve the management and safety record of the biggest national fleet owner. Bulgaria is encouraged to continue its efforts in this regard.

Overall assessment

As regards *Trans-European Transport Networks*, the Bulgarian authorities continue to place the main emphasis on further modernisation and development of priority transport infrastructure along the designated TEN corridors. Bulgaria has undertaken significant co-financing obligations for the infrastructure projects that will need to be ensured. Securing the necessary funding resources to respect programme and commitments, notably as regards road upgrading, is a key issue. Attention should be given to ensuring the necessary administrative capacity (in both qualitative and quantitative terms) to implement several projects simultaneously and to prepare for the significant investments that will be needed in rail and road infrastructure. The gradual transition from 10t/axle load to 11.5t/axle loads will entail the upgrading of 1200 km of Bulgarian roads by 2007 at an estimated cost of approximately €240 million. Care will need to be taken to ensure that feasibility studies for construction work comply with EC environmental rules, notably the preparation of sound and complete Environmental Impact Assessments.

As regards *road transport*, the main legislative framework is in place, and Bulgaria has continued to advance in harmonising its legislation with the *acquis* through the adoption of implementing legislation. These efforts should be maintained, notably in the areas of transportable pressure equipment, technical roadside inspections and driving licences. Administrative capacity should be strengthened further, in particular through specialised staff training for people in key supervisory and control functions relating to access to the profession, social rules (particularly driving times and rest periods), vehicle taxation and road user charges, as well as technical and safety standards. It is still necessary to further prepare operators for the important investments which they will need to make to ensure that the road haulage fleets comply with *acquis* requirements, particularly that part of the road haulage fleet which carries out national operations. Attention is drawn to the need to remove certain existing practices that hamper movements of travellers and goods through the territory of Bulgaria and at its borders, as well as in the field of attribution of licences and authorisations, especially as far as market access is concerned.

In the *railway sector*, Bulgaria has finalised the restructuring with the reorganisation of the Bulgarian railway operator. Efforts have been made to recover unpaid bills for the operator. However, both the operator and rail-infrastructure manager continue to be confronted with a difficult financial situation. Urgent action should be taken to adopt a robust long-term business plan for restoring financial equilibrium in the sector. There is need now to implement legislative changes to ensure the independence of the management of railway undertakings, by strengthening the railway administration, and by putting in place an efficient and fair rail-infrastructure charging scheme. Bulgaria still needs to implement the *acquis* on the interoperability of the trans-European conventional rail system.

As regards *air transport*, the unit for investigation of civil aviation aircraft accidents is still placed under a directorate of the Ministry instead of being independent. It has a staff of three persons. Bulgaria needs to continue legislative alignment with the *acquis* in the sector and to continue with the gradual implementation of the Joint Aviation Requirements. Bulgaria took the unilateral decision not to go ahead with the conclusion of the European Common Aviation Agreement.

In the field of *maritime transport*, the adoption of the amendments to the Merchant Shipping Code and measures taken following the worrying deterioration of the vessel detention rate last year have improved the situation. Improving the performance of maritime safety administrative institutions, firstly as a Flag State, and then as a Port State, must continue to be a priority. In particular, the agency “maritime administration” should receive further resources – both financial and in terms of equipment - for proper execution of its obligations. Efforts should be sustained to ensure that Bulgaria will meet its objective of removing the Bulgarian flag from the Paris MoU black list.

Conclusion

Since last year’s Regular Report, Bulgaria has made good progress, in particular in the fields of road and maritime transport; some progress can also be recorded in the area of railways and aviation, while only limited progress can be reported in the area of inland waterways. Bulgaria continues to reinforce its administrative structures.

Bulgaria should focus further efforts on the reinforcement and strengthening of its administrative structures in order to ensure adequate administrative capacity for enforcement of the *acquis* and implementation of the investment plans. This implies the implementation of the *acquis* in the road and railway sectors, notably for their further liberalisation, and on the transposition and implementation of the *acquis* in the aviation sector. Continuous attention needs to be paid to strengthening the maritime safety authorities and their independence and to improving the maritime safety record.

Negotiations on this chapter have been provisionally closed. Bulgaria was granted transitional arrangements on the financial standing criterion for transport operators carrying out domestic transport services (until 31 December 2010) and on a gradual increase of axle-load limits on the national road network (until 31 December 2013). Bulgaria has agreed to a transitional arrangement put forward by the EU concerning gradual reciprocal access to the cabotage market in the road haulage sector. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 10: Taxation

Progress made since the last Regular Report

In the area of **indirect taxation**, further alignment with the *acquis* was achieved with the amendments to the law on *VAT*, which entered into force in January 2003. The amendments reduce the VAT registration and exemption threshold for small and medium sized enterprises to €25 000, and adjusted the scope of VAT exempt financial services.

The amendments to the law on *Excise Duties* of January 2003 introduced the definitions of intermediate products, wine, fermented products other than wine, and beer. The tax base for the excise duty levied on intermediate products was fixed by reference to the number of hectolitres of the finished product and the excise rate on those products was set at €45 per hectolitre in line with the *acquis*. Bulgaria also increased the excise duty rates on ethyl alcohol, thereby reducing the disparities with EU minimum levels. Bulgaria has also increased, as of 1 January 2003, the duty rates on petrol and gas oil in

accordance with the calendar for its alignment with the *acquis*, but the duty rates remain well below the EU minimum levels.

In the areas of **direct taxation**, there is no progress to be reported.

On **administrative co-operation and mutual assistance**, since the last Regular Report, some progress has been made in reforming and strengthening Bulgaria's tax administration. With the adoption of the law on the National Revenue Agency in November 2002, Bulgaria defined the mandate of the National Revenue Agency with respect to unified collection, accounting and control of revenue from taxes and social security contributions. An executive director and 40 % of the planned staff have been appointed. Plans are advanced and funds have been made available to develop this new revenue collection system. In June 2003, a Central Liaison Office (CLO) was established. It will become responsible for administrative co-operation with Member States upon accession

Overall assessment

Bulgaria's indirect tax legislation is to a significant extent aligned with the *acquis*. Further alignment is though still needed in the area of VAT, in particular with regard to the alignment of the definitions of the taxable scope and the taxable place, the scope of exempt transactions, as well as the introduction of the special schemes for second-hand goods and travel agents

As regards excise duties, the gradual increase of the excise duty rates on mineral oils, alcoholic beverages and tobacco products should continue in order to meet the EU minimum levels required by the *acquis*. Moreover, the structure of the duty on cigarettes should be aligned with the *acquis*, by unifying the rates on filter and non-filtered cigarettes. The duty suspension scheme, and in particular the provisions on tax warehouses, has not yet been adopted. Given the complexity of this essential part of the *acquis*, Bulgaria should urgently start preparing for its transposition and implementation.

As regards direct taxation, Bulgaria has to abolish its withholding taxes applied on dividends repatriated, and on interest and royalty payments from Bulgarian subsidiaries to EU mother companies, and to further align its legislation with the *acquis*. The review of its tax legislation should be continued in order to eliminate potentially harmful tax measures so as to comply with the Code of Conduct for Business Taxation upon accession to the same extent as current Member States.

In the area of administrative co-operation and mutual assistance ensuring that the computerised tax information system is fully operational, and interconnectivity with EU IT systems is established should remain a priority. Bulgaria should take further measures to ensure that the tax administration has the necessary human resources, with adequate qualifications, to manage the various IT projects in this field.

Despite a number of positive developments during the reporting period, significant further efforts are needed to strengthen the tax administration. Bulgaria should address the need to improve the effectiveness of tax compliance, collection of revenues and VAT refund management by enhancing the efficiency of the entire tax administration. Particular attention should be given to internal control, audit and fraud investigation.

Conclusion

Since last year's report, Bulgaria has made further progress in aligning with the *acquis* on taxation.

Although Bulgaria has achieved a good degree of alignment with the *acquis*, further legislative progress is required and the administrative capacity still needs to be significantly strengthened.

Negotiations in this chapter have been provisionally closed. Bulgaria was granted a transitional arrangement concerning the application of the minimum excise duty levels on cigarettes (until 31 December 2009), as well as specific arrangements to continue exempting international passenger transport from VAT with right of deduction, to apply a reduced excise duty rate to rakya produced from fruits and grapes for own consumption (up to 30 litres of fruit spirits per annum per household), and to apply a registration and exemption threshold of € 25,000 to small and medium-sized enterprises. Bulgaria is essentially meeting the commitments it has made in the accession negotiations in this field.

Chapter 11: Economic and Monetary Union

Progress since the last Regular Report

A detailed assessment of the various aspects of Bulgaria's economic policy has been given above, in the chapter discussing the economic criteria. Therefore, this section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* – as defined by Title VII of the EC Treaty and the other relevant texts – which candidate countries should implement by accession, 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 the 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*.

No progress has been made since the adoption of last year's Regular Report on the **prohibition of direct public sector financing**.

In the area of **prohibition of privileged access of public sector authorities to financial institutions**, amendments to the law on insurance were adopted in October 2002, abolishing the obligation for insurance companies to invest a given share of their reserves in securities issued by the government, which was in conflict with the *acquis* on privileged access. Furthermore, amendments to the law on banks of September 2002 and to the Law on the 2003 State Budget of December 2002 ensure that the Bulgarian National Bank receives reimbursement from the Ministry of Finance (on the basis of a contract) for the cash operations in execution of the state budget.

On the **independence of the national central bank**, no progress has been made since the last Regular Report.

Overall Assessment

Upon accession, Bulgaria will participate in EMU without adopting the euro as a currency. It will need to implement the necessary changes to its institutional and legal framework.

As to the provisions regarding prohibiting direct financing of the public sector, further legislation remains to be adopted. Among others, a safeguard should be introduced to ensure that credits offered by the Bulgarian National Bank to the government for purchases of Special Drawing Rights can only be made if they relate to obligations vis-à-vis the International Monetary Fund.

In the area of prohibition of privileged access of public sector authorities to financial institutions, Bulgaria has to align its legislation as regards the remaining restrictions on investment of pension scheme assets. The law on insurance still allows the Council of Ministers to adopt ordinances on the way of forming insurance reserves. Therefore, further provisions should be added through a safeguard clause mentioning that investment restrictions can only be based on prudential considerations and through a clear procedure of appeal against such ordinances.

As regards central bank independence, further efforts are needed, in particular on safeguarding against possible conflicts of interest relating to the duties of members of the Board, making rules for dismissal compatible with the *acquis* and introducing provisions for judicial review of dismissal decisions.

Bulgaria committed itself to have the necessary amendments adopted by the Council of Ministers by mid-2005 and voted by the National Assembly no later than mid-2006 so that they should enter into force on Bulgaria's date of accession to the EU.

Administrative capacity is in place and is functioning adequately.

Conclusion

During the last year Bulgaria has made some progress, notably with adopting new legislation in the field of prohibition of privileged access of public sector authorities to financial institutions.

While overall *acquis* alignment is at a high level, attention must be paid to the independence of the central bank as well as alleviating the remaining restrictions on investment of pension scheme assets. Further legislation also needs to be adopted regarding prohibition of direct financing of the public sector.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. It is essentially meeting the commitments it has made in the accession negotiations in this area.

Chapter 12: Statistics

Progress made since the last Regular Report

As regards **statistical infrastructure**, the statistical law was further improved in 2002, defining in more detail the statistical bodies and their responsibilities and the principle of confidentiality. Some steps were taken to increase the administrative status of the National Statistical Institute (NSI) within the government. The medium-term strategy for the development of statistics for the period 2003-2006 improved strategic planning. Training has continued to be a priority in view of the high turnover of staff. The NSI was relieved of management of the unified information system for action against crime, which is not usually the work of a statistical office.

National **classifications**, providing direct implementation of European classifications and nomenclatures, are in place. The revised versions of the Statistical Classification of Economic Activities in the European Community (NACE) and the Classification of Products by Activity (CPA) were implemented in 2003.

As regards the different **sector statistics**, progress can be reported as follows.

In the area of *demographic and social statistics*, population and housing census results were published and recalculations of time series done. Most other surveys like the labour force survey with the ad-hoc modules, the structure of earning survey and the time use survey are now in place. Preparations for carrying out surveys on annual labour cost, income and living conditions have started.

As regards statistics at *regional level*, a larger number of indicators are available for the Nomenclature of Territorial Units for Statistics (NUTS) 2 and 3 levels for the period 1995-2002.

In the field of *macro-economic statistics*, an improvement in the exhaustiveness and timeliness of annual national accounts can be reported. The delimitation of institutional sectors was brought in line with the European System of Accounts (ESA 95). The timeliness of quarterly national accounts and the quality of input-output tables have improved. Debt and deficit statistics have further improved.

For *business statistics*, data from the population census as well as specific surveys were used to provide information on the information society. For tourism a national Tourist Register is being developed and new surveys on accommodation were prepared.

As regards *transport statistics*, no further progress can be reported, as many areas such as road transport of goods, air and port statistics are already in line with the *acquis*.

For *external trade*, work is underway to improve the quality and timeliness of primary data involving co-operation between the customs administration and the NSI. The NSI has implemented a pilot survey for Intrastat, the system for collecting statistics in relation to trading of goods between EU Member States (intra-community trade) and is on track for preparing the system by accession.

For *agricultural statistics*, during the past year, Bulgaria has made progress by implementing a number of surveys, e.g. on livestock, milk processing enterprises, vine and viticulture, yield and crop production. Balance sheets for many products are under

preparation. Progress can be reported in relation to price and income statistics. The law on the agriculture census was adopted by Parliament in February 2003. A preliminary list of agriculture holdings has been prepared. The agriculture census is planned for the second half of 2003. Its results should help improve the quality of agriculture statistics further.

Overall assessment

Statistical infrastructure, the legal basis and the organisational structure of the NSI are appropriate for fulfilling its current tasks. However, the available resources do not permit the NSI to cope adequately with the challenges and requirements of upcoming and newly adopted *acquis*. Furthermore, the premises of the NSI should also be upgraded. The continued strengthening of information technology capacity also remains a priority. Some investment has recently been made, but further training and investment are needed in making effective use of the equipment and the software applications, in particular for management of staff of the regional offices. There is a need to relieve the NSI of management of the administrative business register and to compensate the budget of the NSI for the loss of revenue from these administrative activities.

The NSI will face a huge task to reorganise its regional structure in order to follow the country's administrative reform. Staff from the regional offices needs to be trained further.

In the area of classification, all classifications have been implemented.

In the area of regional statistics, a database containing data sources needs to be built up. Bulgaria also needs to improve quality and the availability of regional data. In the field of macro-economic statistics, financial accounts still need to be developed and continuous efforts are needed to improve the quality and coverage of national accounts. In the area of business statistics, further efforts are required to include local and physical units and to improve its quality. Major efforts are needed to achieve full alignment for the industry and construction sectors. Further progress is also needed in the area of agriculture statistics and financial accounts. The quality, coverage and timeliness of data should be the focus of future efforts in the field of demographic and social, transport, external trade and agriculture statistics.

Conclusion

During the last year Bulgaria has made some progress, in particular in adapting the statistical law, further developing and implementing a planning system and a training strategy, preparing the agriculture census and improving some statistical areas.

Overall, Bulgaria has made continuous progress towards a satisfactory compliance with the *acquis*. Further efforts should focus on upgrading methodology, improving the quality and completeness of data, and human resources development. Progress is needed in areas such as macro-economic, business and agriculture statistics.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangement in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 13: Social policy and employment

Progress made since the last Regular Report

In the area of **labour law**, some progress has been made through the introduction of provisions relating to the posting of workers and protection of young people at work. A National Action Plan against the worst forms of child labour (including prostitution, trafficking of drugs and begging) was adopted in 2002 and aims at bringing children back to school. Amendments to the Labour Code, published in 2003, should in principle allocate the power of authorising the hiring of persons under age of 16 to the General Labour Inspectorate. Some steps have been taken to develop the implementation capacity of this body in order to apply more stringent sanctions to employers who have hired children illegally.

In the field of **equal treatment of women and men**, important progress has been made with the adoption in September 2003 of the Law on Protection against Discrimination, which aims at transposing a number of key directives in this area (equal pay, equal treatment in employment, pregnant women and burden of proof). In February 2003, a Consultative Commission on equal opportunities which is, *inter alia*, supposed to draft a National Action Plan on gender equality was set up at the Ministry of Labour. In April 2003, a National Action Plan on Employment was adopted, including a section on promotion of equal opportunities for women and men.

Some progress has been made in the area of **health and safety at work**. New legislation was adopted concerning biological agents at work, display screen equipment, asbestos, noise, temporary or mobile construction sites, work equipment, drilling and surface and underground mineral-extracting industries as well as medical treatment on board vessels. Following a government decision in February 2003, the organisational structure of the General Labour Inspectorate was changed and the staff of this body was increased to 550. A new structure of the General Labour Inspectorate has been created which now consists of general and specialised administration.

In the area of **social dialogue**, through amendments to the Labour Code in December 2002, some progress has been made in establishing criteria for representation in tripartite consultations and in further clarifying the mechanisms for tripartite co-operation. An amendment to the Law on Economic and Social Council adopted in March 2003 further regulates the establishment of an Economic and Social Council, a consultative body on economic and social issues involving both social partners and civil society. In April 2003, legislation was published which clarifies the structure as well as the activities of the National Institute for Conciliation and Arbitration. After appointment of an executive director and the nomination of mediators and arbitrators by the State, trade unions and employers organisations on an equal basis, this body has resumed its task, namely assistance in the voluntary settlement of labour disputes. A National Council for Employment Promotion was established in 2002 as a body for co-operation and consultation concerning the design of employment policy.

With regard to **public health**, in November 2002 the Council of Ministers adopted a strategy for restructuring hospital care in 2002–2006. The aim of the strategy is to increase the efficiency and quality of health care. A survey was carried out at the end of 2002 with the aim of gathering data on the prevalence of smoking and identified risks group and on the impact of tobacco smoking on the mortality rate. The prevalence of

smoking is high, and is a major cause of several illnesses. However, some progress has been made in the transposition of the tobacco acquis and tobacco control measures, as well as in initiating measures on mental health. Amendments to the Law on Public Education adopted in 2002 update the legal framework for children's, schoolchildren's and student's health care and introduce health education. They provide for compulsory preparatory classes, free of charge, in kindergartens and schools.

By signing the Joint Assessment Paper on **Employment Policy** Priorities (JAP) in October 2002, Bulgaria and the European Commission have continued the work on the Employment Policy Review. An amendment to the Law on Employment Promotion of March 2003 further clarifies the mechanisms for subsidised employment. A National Action Plan on Employment was adopted by the Council of Ministers in April 2003. This document pays increased attention to sustainable employment creation measures and training towards a qualification. Compared to 2002, the budget for this plan has increased threefold. A number of efforts were made to put more emphasis on active labour market measures, including the programme "From Social Assistance to Provision of Employment". This emphasis is also reflected in the "New Social Policy Strategy" adopted at the end of 2002. As a measure to restrict the grey economy, all employment contracts are subject to compulsory registration with the National Social Security Institute.

With a view to preparing the Ministry of Labour and Social Policy to act as Managing Authority for the Human Resources Development Operational Programme, the department dealing with the **European Social Fund** (ESF) within the Ministry was reorganised. It now comprises three units, with a total of 25 staff.

As a follow-up to the Gothenburg European Council, the Commission and Bulgaria have initiated a joint co-operation exercise (Joint Inclusion Memorandum) to prepare for future participation in the EU **social inclusion** process after accession. This exercise consists in joint identification of the social exclusion challenges and relevant policy responses.

In the area of **social protection**, amendments to the law on social assistance entered into force in January 2003 and established an Agency for Social Assistance (as legal successor of the National Social Assistance Service) and its territorial structures, namely 28 regional administrative centres and social assistance directorates in all municipalities. Implementing legislation to the Law on Social Assistance adopted in April 2003 introduces criteria and standards for the provision of social services. An Inspectorate within the Agency for Social Assistance is in charge of control. As from January 2003, specialised institutions and alternative social services under the management of the Ministry of Labour and Social Policy were transferred to the municipalities, but financed by the State. The amendments also introduced a more differentiated approach of support for different vulnerable groups with the aim of better targeting social assistance. A New Social Policy Strategy was adopted at the end of 2002 which, *inter alia*, envisages a decrease of the number institutions and of people in institutions under the responsibility of the Ministry of Labour and Social Policy by 20% by the end of 2004. In parallel, the introduction of alternative social services (day care centres, consultation centres, etc.) is envisaged. Furthermore, a plan to decrease by 10% the number of all children in specialised institutions in the period 2003–2005 was adopted in August 2003. A National Strategy for Equal Opportunities for Disabled People aiming at awareness raising and enhancing the quality of life for disabled people was adopted in June 2003. In view of the European Year of People with Disabilities, a national programme "Bulgaria for all" was

adopted in June 2003. The programme contains a timetable of events undertaken in view of the European Year of People with Disabilities and deals with activities related to accessibility, anti-discrimination policy, integrated education and employment. A programme to employ teachers to train and educate disabled children has been launched on a pilot basis in five municipalities.

In the field of **anti-discrimination** policy, significant progress has been made with the adoption of a Law on Protection against Discrimination. This law covers all grounds of discrimination mentioned in the *acquis* and provides for the establishment of an independent Commission to enforce the law.

Overall assessment

Further alignment with the *acquis* is needed in the area of labour law, namely with the *acquis* on part-time work, on the employer's obligation to inform employees of the conditions applicable to the contract or employment relationship, on the safeguarding of employees' rights in the event of transfer of undertakings, on collective redundancies and on certain aspects of the organisation of working time. Moreover, EC legislation guaranteeing the claims of workers in the event of insolvency of their employer and on the European Works Council still needs to be transposed. Continued focus on improving implementation and enforcement capacity, particularly of the Labour Inspectorates, is needed.

An important part of the *acquis* in the area of equal treatment of women and men has been transposed by the adoption of the Law on Protection against Discrimination, including the Directives on pregnant workers, parental leave, equal pay, equal treatment in employment and the burden of proof. However, adjustments are still necessary in a number of areas. The transposition of the *acquis* should be completed in particular by the envisaged amendments of the Labour Code. The prohibition of night work and overtime for certain categories of women still needs to be removed.

Though some progress has been made in further transposing part of the *acquis* in the area of health and safety at work, considerable work remains with regard to transposition and particularly implementation and enforcement in this area. Little progress has been made to improve the capacity of the General Labour Inspectorate to perform relevant checks in a satisfactory way. With a view to proper implementation of the *acquis* in this area, Bulgaria should finalise the methodology and carry out studies to assess the financial impact of implementing individual Directives in the field of occupational health and safety. Furthermore, the compensation system for bad working conditions needs to be abolished.

Social dialogue needs to be further improved. The basic conditions do not yet exist for meaningful involvement of social partners in labour relations in general and wage formation in particular and for participation of enterprises and the workforce. The functioning of the National Council for tripartite cooperation should be improved in a way, which offers fair governance. While tripartite co-operation has a role to play, direct bipartite collective bargaining between employer and trade union organisations remains very weak at enterprise, sectoral and regional levels and should be fostered to improve its coverage.

With regard to public health, a national communicable disease surveillance and control plan should be developed with a specific focus on building epidemiological capacity. A revision of legislation relevant to communicable diseases surveillance and control is required to align with the principles and methodology of the Community network for the epidemiological surveillance and control of communicable diseases. The existing reference laboratory is outdated and lacks resources. Significant capacity building efforts are needed in order to ensure incorporation into the EU system of surveillance and control of communicable diseases. Sustained efforts are required to continue and to implement the health care reforms that have been introduced. More progress is needed to improve the health status of the population, which is well below the EU average. Though financial resources for health have somewhat increased, these are still well below the EU average. For instance, Bulgaria needs to ensure that sufficient human and financial resources are devoted to implementing the Strategy for Restructuring Hospital Care.

Regarding employment, the Joint Assessment of the Employment Policy Priorities (JAP) represents an important step in the preparation of accession. It is important to ensure effective implementation of these policies and monitor the phasing-in of the priorities and commitments contained in the JAP. Bulgaria has a rather high unemployment rate, despite some decrease over last year. Structural weaknesses of the labour market are long-term unemployment, high youth unemployment, high unemployment among those with lower levels of education and skills, wide regional variations in unemployment. Though some progress has been made in increasing the scope of active labour market measures, these issues need to be further addressed with a stronger and more efficient activation approach through the systematic and active engagement of the public employment service. The provision and targeting of active labour market programmes as well as the provision, resources and targeting of training measures need to be improved. The envisaged National Employment Strategy has not yet been adopted.

Administrative capacity with a view to preparation and implementation of the ESF needs to be further improved.

Regarding social inclusion, the Joint Inclusion Memorandum of the European Commission and Bulgaria will represent an important step to prepare Bulgaria for the future participation in the open method of co-ordination in the area of social inclusion. Though there is awareness to ensure social inclusion and integration of ethnic minorities as demonstrated, *inter alia*, by the Framework Programme for Equal Integration of Roma into Bulgarian Society, practical implementation remains piecemeal. There is room for further improvement of the effectiveness of social assistance. Social assistance and its interaction should be reviewed in order to increase incentives for the unemployed and inactive to take up a job in the formal sector and to encourage an active attitude.

Bulgaria has made significant progress towards combating discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation with the adoption of the Law on Protection against Discrimination.

Conclusion

Since last year's report, Bulgaria has made some progress in aligning with the *acquis* in the area of employment and social policy.

Bulgaria has achieved a reasonably high degree of alignment of the *acquis* in the area of anti-discrimination policy. However, alignment with the *acquis* in the areas of labour law, equal treatment and health and safety at work has not yet been completed and needs to be continued. The administrative capacity of relevant bodies, including the General Labour Inspectorate, needs to be strengthened in order to effectively implement the *acquis*. Furthermore, preparations for the future management of the European Social Fund activities after accession should be further stepped up. The translation of the EU's objectives of promoting social inclusion into national policies must be pursued.

Negotiations on this chapter have been provisionally closed. Bulgaria has been granted a transitional arrangement (until 31 December 2010) for the implementation of EC legislation on tobacco, in particular the maximum tar yield of cigarettes. Bulgaria is generally meeting the commitments and requirements arising from the accession negotiations in this field.

Chapter 14: Energy

Progress made since the last Regular Report

Concerning **security of supply** and the constitution of mandatory oil stocks, Bulgaria adopted the law on the mandatory reserve of oil and oil products and the law on state reserve and wartime supplies in January 2003. Bulgaria will have to build up the 90 days' oil stocks foreseen in the *acquis*, over nine years, starting in December 2004, according to its commitments. A special directorate of the State Agency for State Reserve and Wartime stocks has been created for the management of the mandatory oil stocks. It is staffed with eight employees.

In relation to **competitiveness and the internal energy market**, Bulgaria has undertaken preparations for a gradual opening of its electricity and gas markets but delays in the adoption of the new energy law have slowed down this process. New legislation, allowing the State Energy Regulatory Commission (SERC) to fix the capacity and quantities of electricity which each independent producer can negotiate with eligible customers, was passed in December 2002. The SERC is becoming active in issuing permits and licences. In the first quarter of 2003, four general terms of electricity and heat energy sale contracts were approved. Some efforts have been made to reinforce staff in the SERC, which now has about 80 employees. The SERC is however still subordinated to the Council of Ministers.

In May 2003 NEK (the national electricity company) became full member of the Union for the Co-ordination of the Transmission of Electricity, which underpins Bulgaria's physical integration into the internal electricity market. In December 2002, Bulgaria signed a Memorandum of Understanding aiming at the creation of the Regional Electricity Market in South Eastern Europe. Bulgaria is continuing to enhance interconnection of its electricity grid to neighbouring countries.

The Bulgarian government is currently implementing its privatisation programme for seven power distribution companies, and for certain heating utilities and thermal power plants. Eleven small hydro power plants were sold this year.

In the *district heating sector*, the policy of phasing out price subsidies for household consumers and introducing a two-component tariff is continuing. A modernisation

programme – rehabilitation of stations, modernisation of the heat exchange system, measurement apparatus etc. - is ongoing in this sector, with a view in particular to reducing heat consumption.

In the *solid fuels* sector, Bulgaria continues restructuring through the implementation of its Action Plan for the 21 companies of this sector. Bulgaria is selling most of its profitable coal mines whilst others are being liquidated. Six coal mines have been privatised so far, of which three this year.

As regards **energy efficiency and the use of renewable energy sources**, there has been limited progress due to delays in the adoption of the new energy efficiency act. The Ministry responsible for energy has however very recently adopted a National Energy Savings Programme 2004-2007. The staff of the Energy Efficiency Agency was increased from 27 to 31 employees.

In the field of **nuclear energy**, Bulgaria operates the Kozloduy nuclear power plant (NPP) with four units of the VVER 440/230 design type (Units 1 to 4), and two units of the VVER 1000/320 design type (Units 5 and 6). Kozloduy NPP has provided around 42% of the country's electricity. In addition to the Kozloduy reactors, Bulgaria has one research reactor close to Sofia, which presently is still shut down. The Bulgarian government has decided to re-commission this research reactor at a lower thermal power rate. Reconstruction works started at the end of 2002. Spent fuel from the power reactors is stored at Kozloduy and spent research fuel at the research reactor. Existing waste treatment and disposal facilities are being upgraded and new ones are planned.

As regards *nuclear safety*, Bulgaria has continued to implement the recommendations contained in the June 2001 Council Report on Nuclear Safety in the Context of Enlargement and the subsequent Peer Review Status Report of June 2002. The Law on the Safe Use of Nuclear Energy adopted in 2002 set the legislative and regulatory framework. In order for the law to have full effect in the coming years, further implementing regulations still need to be developed and implemented. The Nuclear Regulatory Authority (NRA) was accepted as a member of the Western European Nuclear Regulator's Association in March 2003. The NRA was reinforced with the recruitment of 20 new staff and introduced a more dynamic salary policy, financed from the fees collected through the licensing of nuclear energy activities.

Reactors 1 to 4 of the Kozloduy nuclear power plant are subject to closure commitments entered into by the Bulgarian government in the framework of the accession negotiations on the basis of an Understanding signed in 1999 with the European Commission. In line with these commitments, Units 1 and 2 were shut down for decommissioning in December 2002.

Regarding units 3 and 4 of the Kozloduy nuclear power plant, which are of the same design-type, the European Union Member States and the Republic of Bulgaria agreed to the final closure of these two units in 2006. Regarding the so-called "Peer Review" mechanism under the auspices of the EU Council, the EU has programmed an expert mission to Bulgaria. With a view to possible further financial assistance in support of the closure and decommissioning of certain units of the Kozloduy nuclear power plant, the European Commission and Bulgaria have set up a working group which evaluates the economic, environmental and social consequences of early closure.

The decommissioning efforts continue to be supported by the Kozloduy International Decommissioning Support Fund (KIDSF), managed by the EBRD. The Fund is the main channel for the “Special Phare Programme to Support the Decommissioning of Nuclear Power Plants and Consequential Measures in the Energy Sector”, worth €200 million, agreed in 1999 within the framework of the Understanding on the early closure of units 1 to 4. As a result of the KIDSF activities, several projects are in progress, notably:

- the establishment of a Project Management Unit (€8.3 million)
- the construction of a dry store for spent fuel assemblies arising from the KNPP units 1 to 4 (€47.2 million);
- the replacement of electricity metering devices (€3.3 million),
- the contribution to the Sofia district heating rehabilitation (€20 million)

Including administrative costs, this means that €82 million has already been committed under the KIDSF. The EBRD Assembly of Contributors is chaired by the Commission representing the European Community, which is the main contributor to the Fund. Several other donors, including some Member States, also contribute to the Fund.

The programme of investments on Units 3 and 4 continues. There has been further domestic debate on closure dates of these units, involving legal proceedings. The modernisation programmes for Units 5 and 6 are continuing with the support of the European Union. Four tranches of the Euratom loan of € 212.5 million for the modernisation of these units, totalling € 105 million, have been disbursed.

Overall assessment

As regards oil stocks, Bulgaria has now legally set its timetable to increase oil stocks to 90 days by the end of 2012. Implementing legislation should be adopted. The State Agency “State reserve and wartime stocks” should be strengthened and adequately equipped to fulfil its tasks. Bulgaria should ensure that sufficient financial means remain available to build up stocks according to its commitments.

In the area of the internal energy market (electricity and gas), Bulgaria should complete legal alignment and ensure that practical steps for its participation in the internal energy market continue. Delays in the adoption of the energy law prevented the energy market from being opened up at the beginning of 2003. The National Electric Company (NEK) maintains a monopoly on imports, which effectively prevents eligible customers from freely choosing their providers. As regards pricing policy, current prices of natural gas provide for cost coverage and further gradual increases in prices of electricity for households are planned. The remaining price distortions, in the heat sector and others, should be eliminated by 2005. Bulgaria should transpose the recently adopted electricity and gas directives in line with the timetable foreseen by the acquis.

Investments in the distribution network and in improving energy generation continue. Bulgaria maintains its role as a transit country both for electricity and gas and is currently developing plans regarding oil transit and further plans for gas.

The administrative capacity and the independence of the State Energy Regulatory Commission (SERC) still need further reinforcement. Salaries have been improved but

budgetary restrictions and the lack of flexibility in using this budget continues to hamper its effective functioning.

In the solid fuel sector, the implementation of the Action Plan for the restructuring of the sector is progressing steadily. Although overall productivity only slightly improved during 2002, the level of subsidies decreased significantly. The full implementation of the Action Plan including the alleviation of the social consequences of restructuring continues to require attention.

Energy efficiency and enhanced use of renewable energy sources remain a point of concern and remain very low. Plans have been drafted to tackle the absence of progress in that domain in recent years and should be adopted and actually implemented. Legislation needs to be completed. The Energy Efficiency Agency should be strengthened and be mandated with clear tasks.

The European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. Units 3 and 4 of the Kozloduy Nuclear Power Plant are subject to early closure commitments. Like units 1 and 2, which were effectively shut down for decommissioning at the end of 2002, they are subject to a number of deviations from safety requirements due to their original design, not least the absence of containment. Closure commitments made at the accession negotiations must be duly respected.

Bulgaria should continue with its implementation of all the recommendations contained in the Report on Nuclear Safety in the Context of Enlargement and the Peer Review Status Report with regard to the priorities assigned in these reports, including the strengthening of the resources and capacity of its nuclear regulatory authority and the full implementation of the safety improvement programmes in place. Bulgaria should also strengthen its capacity in the area of radioactive waste management, including the creation of an agency for radioactive waste management and the definition of a clear waste management strategy identifying the gaps and shortcomings in current management schemes.

Bulgaria will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention will need to 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 materials.

Conclusion

Bulgaria has continued to progress in reforming and preparing the energy sector to the EU requirements including liberalisation for its future participation in the internal energy market.

Despite having achieved some alignment, further progress remains necessary and Bulgaria should now focus on full and timely implementation of legislation; on implementation of its energy sector restructuring programme with due regard to social consequences; on energy efficiency and the use of renewable energy; on the progressive building up of oil stocks; on nuclear safety and the preparation of the closure and

decommissioning of certain units of Kozloduy NPP; and strengthening of administrative capacity in the sector (in particular the energy regulator and the nuclear safety authority).

Negotiations on this chapter have been provisionally closed. Bulgaria was granted a transitional period until 31 December 2012 to meet the obligations of Member States to maintain minimum stocks (90 days) of crude oil and/or petroleum products. Bulgaria is meeting the majority of the commitments and requirements arising from accession negotiations for this chapter. However, delays have occurred notably in opening up the electricity market and in aligning with energy efficiency acquis.

Chapter 15: Industrial policy⁹

Progress made since the last Regular Report

As regards **industrial strategy**, no particular developments are to be reported. The Government continued to implement its policy document “Industry 2002”. The Ministry of Economic Affairs presented an economic stimulation package at the end of 2002 containing a series of measures aiming at improving the business climate.

Over the reference period, the main focus was on stimulating private investment, in particular through reduction of taxes in certain regions and sectors. However, legal and administrative procedures for taxation are still administratively burdensome.

In 2002 the ratio of gross fixed capital formation to GDP remained stable at about 18%. Foreign direct investment in 2002 stood at €511 million, compared with €774 million in 2001. While a majority of established foreign companies continue to expand their operations in Bulgaria, the number of significant greenfield investments remained modest. This is mainly due to the global macroeconomic situation in 2002, delays in important privatisation deals and remaining procedural obstacles that foreign investors can face. Figures for the first half of 2003 show improvement with foreign direct investment inflows set at €474 million.

Privatisation and restructuring are advanced and the government has made numerous efforts to step up the pace although the privatisation programme advanced more slowly than expected. By August 2003, 82.3% of the state-owned assets earmarked for privatisation had been privatised. In March 2003, the Government approved a plan for selling the remaining minority shares in 1 084 companies. State minority stakes in 425 enterprises were offered for sale in an open tender in June 2003 and the bids are being evaluated. The privatisation agency is now also launching the sale of minority stakes in 11 companies on the stock exchange. Small-scale privatisation has been progressing well but – with the exception of the banking sector – certain major privatisation deals have not been concluded yet. The forthcoming privatisation of the energy distribution companies is considered a priority. Amendments to the law on privatisation and post-privatisation control adopted in February 2003 were declared unconstitutional by the Constitutional Court. The liquidation of non-viable state-owned enterprises is continuing. More than a hundred companies, for which the state still has a majority stake, have undergone a process of liquidation, of which sixty under the insolvency procedure.

⁹ Developments concerning industrial policy should be seen in relation to the overall enterprise policy, including SME policy (see Chapter 16 - Small and medium-sized enterprises).

The restructuring of the steel industry has continued, but remains incomplete. Bulgaria has asked for an extension of the grace period provided for in Protocol II to the Europe Agreement. In order to allow a decision to be taken on this extension, Bulgaria needs to submit a global restructuring plan for assessment. (*see also Chapter 6 – Competition policy*).

Regarding administrative structures, the Agency for Post-Privatisation Control became operational at the end of 2002 and has already examined a large number of cases. There has been progress in streamlining administrative procedures and improving the qualification of staff in the Foreign Investment Agency, though its participation in policy-making decisions remained limited.

Overall assessment

The Government's industrial policy remains growth-oriented. Growth is to be achieved by completing industrial restructuring, improving the business environment, encouraging high-tech industries, stimulating exports and attracting foreign investment. Some efforts are being made with regard to stimulation of research and development, innovation and technology investment, where a new strategy is under preparation.

The main actors at national level are in place, ranging from the Ministry of Economy, the Commission for the Protection of Competition, the Privatisation Agency, the Foreign Investment Agency, the Trade Promotion Agency, the Export Insurance Agency, the SME Agency, three Chambers and numerous branch associations. The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of Economy. All these institutions are officially contributing to policy development, but further efforts are needed to develop and implement an integrated approach and policy for stimulating industrial development. The concrete implementation of proposals for stimulation of the economy also often remains incomplete: most of the measures listed in the economic stimulation package (presented in December 2002) and other action plans, such as for innovation, could not be effectively implemented, whereas plans under preparation for the encouragement of investment are overly focused on state aid elements and on large-scale investment projects. The capacity of the Ministry to formulate and implement a coherent industrial policy remains a challenging task and a priority. Co-ordination among different ministries – including the Ministry of Finance – and other government bodies has somewhat improved but there is a lack of institutionalisation or a systematic approach. Attempts to create a functioning structure to further integrate the business community in the policy-making process should be further encouraged.

The development of business associations and their top-level organisations in Bulgaria still needs to be further encouraged and streamlined.

The number of public assets to be sold is gradually decreasing. Except for the sale of the second largest bank this year, the Government was unable to conclude two major privatisation deals because of several apparent procedural problems. The Constitutional Court decision repealing amendments to the privatisation law forced the Government to reconsider its legislative framework in this context.

Restructuring of the steel industry needs to be addressed in order to ensure its mid-term viability and fulfil Bulgaria's obligations under the Europe Agreement as regards state aid.

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, which will have to be examined. (*see also Chapter 6 - Competition policy*)

Conclusion

Since the last Regular Report, progress was achieved in privatisation although limited developments took place with the sale of major state-owned companies. Outstanding reforms with an expected impact on the business environment advanced slower than expected.

Although Bulgaria's policy towards industry essentially complies with the principles of EC industrial policy, further attention must be paid to a transparent completion of the privatisation process, the enhancement of the business environment, and the co-ordination of currently rather fragmented administrative structures. Particular attention must be paid to steel restructuring in line with the requirements of the competition and state aid *acquis*.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 16: Small and medium-sized enterprises¹⁰

Progress made since the last Regular Report

As regards **SME policy**, no new development has to be reported since the Government's adoption last year of a new National Strategy for Promotion of SMEs, covering the period 2002-2006. Bulgaria joined the Multiannual Programme for Enterprise and Entrepreneurship 2001-2005 in December 2002.

Bulgaria has made some limited progress on improving the **business environment**. Regarding the number of licensing requirements for SMEs, 58 regimes have been eliminated and 84 simplified as a result of the suggestions made last year by the inter-institutional task force. The latter had proposed to remove 73 and simplify a further 119 regimes. A public register providing access to information on the licensing, permit and registration regimes has been set up and has been accessible via the Internet since February 2003. As far as administrative procedures are concerned, a law was adopted in June 2003 and will enter into force in December 2003 establishing general principles on administrative regulation and control, including tacit consent when the administration does not react within a given time. The introduction in January 2003 of VAT accounts and the mandatory registration of labour contracts have helped to legalise a number of informal businesses. Dialogue between the public administration and the business community has continued since the last Regular Report, but has to improve further.

¹⁰ Developments concerning SME policy should be seen in relation to overall enterprise policy, including industrial policy (*see Chapter 15 - Industrial policy*).

Access to finance is still an important obstacle to the development of SMEs in Bulgaria. Non-banking financial instruments remain scarce. Several banks started to offer targeted credits to SMEs, which was encouraged by stronger competition in the banking sector, and some public-supported SME loan programmes. The Government has set up a guarantee fund for micro-lending and a privately managed equity fund with 49% state participation.

There is no progress to report over the last year as regards the **SME definition** applied by Bulgaria, which is not yet fully in line with the recommendations of the European Commission.

Overall assessment

While Bulgaria's policy towards SMEs is broadly in line with the principles and objectives of EU enterprise policy, Bulgaria has to demonstrate its capacity to deal with SME policy issues and co-ordinate a well targeted policy. Since the adoption of the national SME Strategy 2002-2006 last year, there has been little progress in further developing and implementing an enterprise policy in an integrated manner. More intensive and structural involvement of private-sector representatives in discussions of political measures targeting the SME sector is necessary.

The business environment in Bulgaria still needs to be further improved in order to attract investment. In particular, the efficiency of the administrative and judicial system needs to be enhanced, and efforts should continue to create incentives for informal businesses to legalise themselves. Further attention needs to be paid to the way in which implementing legislation affecting company creation and business activities is effectively applied. SMEs in Bulgaria are not particularly export-oriented and remain strongly focused on their local markets with a limited demand for products and services, mostly because of the low purchasing power.

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of Economy, but the national administrative structure for this sector remains fragmented and inadequately co-ordinated. The SME Agency lacks the resources and means to fulfil its tasks to prepare Bulgaria's SME sector for integration into the EU. The capacity for implementation of large-scale SME support programmes – with the assistance of external donors – remains insufficient at the level of public administration and needs further strengthening. In some local cases, however, business incubators managed to group existing and newly stimulated businesses and hence to form a kind of informal cluster around them.

The absence of solid business organisations representing the interests of smaller businesses remains a problem that has not been addressed. The Ministry of Economy and the SME Agency are expected to take a pro-active role in developing the capacity of business associations and ensuring their transparent consultation in all matters of policy relevant to their members.

The implementation of the European Charter for Small Enterprises is continuing as planned.

Bulgaria should align its definition of SMEs with the relevant Commission recommendation.

Conclusion

Bulgaria has made some limited progress in the implementation of its SME policy and in building up a state support system for business promotion.

While Bulgaria's policy towards SMEs is broadly in line with the approach promoted at EU level and Bulgaria has made progress in stabilising the overall economic environment, it should focus efforts on further improving the business environment, resolving remaining uncertainties notably in the legislative and taxation areas and fighting the grey economy.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 17: Science and research

Progress since the last Regular Report

Since February 2003, Bulgaria has been fully associated with the **Sixth Framework Programme for Research and Technological Development** and with the **Sixth Euratom Framework Programme**.

Research and development activities were further stimulated through a package of financial and tax measures (including amendments to the Income Taxation Law, Corporate Income Tax Law and Rules on the Application of the VAT Law entering into force in early 2003). The Ministry of Education and Science increased staff dealing with research and development.

An investment fund to support high-tech companies was established and some targeted innovation project support was undertaken. Some measures were taken to increase research related administrative capacity, including an increase in the number of national contact points. The Council for Research and Technological Development Policy was abolished through a government decision in August 2002. The National Council on Scientific Research is now in charge of policy formulation. It is a body within the Ministry of Education consisting of 23 scientist members and 10 attached panels of up to 12 people, plus a Scientific Support Committee for the national research programme.

Overall assessment

The framework for co-operation in the field of science and technology (including National Contact Points) continues to be well established. Bulgaria's association with the Fifth Framework Programme for Research and Technological Development (and the Fifth Euratom Framework Programme) was relatively successful.

After the abolition of the inactive Council for Research and Technological Development Policy, it remains to be seen in how far the National Council on Scientific Research and the Scientific Support Committee will be an effective policy maker in the field of science and research. An overall strategy for scientific research and technological development is still lacking and relevant legislation, including the law for the promotion of research, has been delayed.

Further reinforcement of research-related administrative capacity and infrastructure is necessary. Gross domestic expenditure on R&D still remains relatively low (compared to current and future member states) and needs to be increased also with a view to meeting the target of 3% of GDP by 2010, set by the Barcelona European Council.

Conclusion

Bulgaria has made good progress in enhancing its participation in the relevant Framework Programmes.

Through its relatively successful association to these Programmes, Bulgaria has achieved a good level of implementation of the acquis. Bulgaria should now focus efforts on further reinforcement of research-related administrative capacity and infrastructure, *inter alia* to maintain and further enhance success concerning its association with the relevant Framework Programmes. An overall strategy for scientific research and technological development should also be elaborated.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments and requirements arising from the accession negotiations in the field of science and research.

Chapter 18: Education and training

Progress since the last Regular Report

Bulgaria continues to participate in the second generation of the relevant **Community programmes**, namely Leonardo da Vinci, Socrates and Youth.

A programme to ensure implementation of the directive concerning **education of children of migrant workers** was approved. It addresses the need for availability of instruction of pupils in the mother tongue and culture as well as in Bulgarian, relevant teacher qualifications, and school programmes and materials, funded by the state budget.

Little progress has been made in **reforming the education and training system**. The National Development Plan 2000-2006, which was updated in April 2003, emphasises human resource development, including quality improvement in vocational education and training as a priority. The National Action Plan on Employment 2003, also adopted in April 2003, outlines key employment actions, including training for adults leading to acquisition of vocational qualifications. Some progress has been made in the area of standards (12 standards were approved by the end of 2002). In consultation with employers and professional organisations, the list of professions covered by vocational education and training was amended, thereby assuring education and training in new professional fields relating to the needs of the labour market.

Amendments to the Law on Vocational Education and Training adopted in November 2002 aim at a more detailed and comprehensive regulation of the acquisition of professional qualification. The amendments also modified licensing procedures for training institutions to provide training leading to state-recognised vocational qualifications. Further amendments to this law adopted in March 2003 aim, *inter alia*, at

improving co-ordination between the Ministry of Education and Science and the National Agency for Vocational Education and Training. Legislation adopted in April 2003 focuses on the administrative capacity of the National Agency for Vocational Education and Training and envisages an increase of staff to 24.

The National Council for Professional Qualification of the Work Force, regulated by the Law on Employment Promotion, has been provided for as a consultative body for co-operation and consultation with the Minister of Labour and Social Policy. The Council includes representatives of ministries and other state institutions, employers' organisations, trade unions and NGOs, and is charged with co-ordinating the drafting of the national policy and strategy for training unemployed people to acquire professional qualification, for co-ordination and interaction in terms of lifelong learning. Its first session was to take place at the beginning of May 2003. However, this body has not yet been established. Links and co-operation with the National Agency for Vocational Training will be important.

A National Action Plan on Employment was approved by the Council of Ministers in April 2003. It outlines the key employment actions for 2003, including training for adults leading to the acquisition of a vocational qualification as a substantial part of the active measures.

In October 2002, the State Agency for Youth and Sports was transformed into a Ministry.

Overall assessment

Bulgaria's participation in Community programmes is basically satisfactory. However, the Bulgarian authorities need to make further efforts to respect their obligations in terms of adequate co-financing of the National Agency for Leonardo da Vinci and Socrates.

Efforts should continue to ensure that the directive concerning the education of children of migrant workers will be fully implemented by the time of accession. Though the adoption of a programme in this context is a step forward, this needs to be complemented by concrete follow-up. Financial support through the state budget to implement this plan needs to be ensured.

Investment in education measured as a share in GDP is still below the EU average (*see also economic criteria*). The proportion of drop-outs, early school leavers and school failure is significant. Enrolment in higher education is relatively low. Little follow-up of the Commission's Memorandum on Life Long Learning or the optimisation of the school network has taken place.

Increasing and adapting education and training levels is a major issue to ensure that the present and future labour force can re-allocate from the declining to the growing sectors, to avoid skills and regional mismatches and respond to the adaptability required by ongoing restructuring. As outlined in the Joint Assessment Paper of Employment Priorities signed by the Commission and Bulgaria in October 2002, Bulgaria should further develop its vocational education and training reform in line with economic needs, including the development of a strategy on continuous vocational training in close co-operation with the social partners as well as appropriate incentives for the training of the employed. The inequality of access to training for the unemployed has to be addressed with high priority. Co-operation between companies and schools needs to be enhanced.

The process of developing new training standards based on occupational requirements and of a new assessment and certification system needs to continue.

Efforts to improve the provision of education for minority groups and review possible obstacles to ensure equal access to education should be accelerated. Finally, an assessment should be made whether higher education provision is adapted to Bulgaria's needs in a medium-term perspective in terms of strategy, infrastructure, curricula and targets for participation.

Conclusion

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

Bulgarian legislation is generally in line with the *acquis*. Bulgaria is fully involved in the second generation of the Community Programmes. However, the operational capacity of the National Agencies needs to be upgraded and further efforts should be made by the national authorities to respect their financial obligations towards the Socrates and Leonardo da Vinci Agency. Efforts should continue to ensure that the directive on education of children of migrant workers will be fully implemented by the time of accession.

Negotiations on this chapter have been provisionally concluded. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments and requirements arising from the accession negotiations in this field.

Chapter 19: Telecommunications and information technologies

Progress made since the last Regular Report

Concerning **telecommunications**, the new telecommunications law has been adopted in September 2003 and aims at aligning with the *acquis*, particularly as regards obligations to be placed on operators with significant market power, the licensing of fees for administrative costs and the unbundling of the local loop. The previous law on telecommunications provided in principle for full liberalisation of the telecommunications markets (including fixed voice service, leased lines and trans-border real-time voice transmission) as from January 2003. Liberalisation of fixed voice market was slow to take effect but has now started. Three mobile phone operators currently compete for the market for mobile telephone services: one analogue and two GSM operators.

In the area of information society, a Strategy on e-Government was adopted by the Council of Ministers in December 2002.

Little progress has been made concerning the regulatory framework. The Communications Regulation Commission is the administrative structure responsible for implementation and enforcement of the telecommunications legislation. Its duties include monitoring license conditions observance, licensing and general authorisation and civil radiospectrum management. In July 2003, the regulator had 220 staff of which six work in the postal services department. Some measures were taken to improve the organisational structure of the regulatory authority, the Communications Regulation Commission (CRC). A new structural regulation for this body was adopted in October

2002 providing for better organisation of activities relating to market regulation, licensing and frequency management. The Communications Regulation Commission continued to issue a number of licences. A Market Regulation Directorate was established, with a view to the future responsibilities connected with identifying operators with significant market power.

Progress has been made in transposing the **postal services** *acquis*. Amendments to the Law on Postal Services, which entered into force in January 2003, aim at strengthening the Communications Regulation Commission, which is also responsible for the regulation of the postal services sector. The duration of the monopoly over the reserved sector was extended until December 2005. The scope of the reserved area remained unchanged. Competition is open for all postal services outside the reserved area.

Overall assessment

The new law on telecommunications aiming at aligning Bulgarian legislation with the *acquis* should allow for the more effective liberalisation of the fixed voice services telecommunication market. The adoption of the new legislation should contribute to the development of a modern telecommunications sector that is capable of attracting as much finance as possible from purely commercial sources and delivering high quality services at reasonable prices.

The incumbent operator, Bulgarian Telecommunications Company, still has a very large market share of fixed voice telephony services, as liberalisation has only recently started. The continuing delay in settling the future of the incumbent operator could be hampering further development in this sector both by the company itself and by under-mining confidence in potential new investors. The exceptionally low level of digitalisation in the fixed telephone network reflects a long history of under-investment that may take several years to redress. However, digitalisation is essential if Bulgaria is to have universally available modern services and if it is to meet its commitments made in accession negotiations.

Following some progress in market opening, Bulgaria will need to transpose and implement the 2002 *acquis* in time before accession.

The administrative capacity of the regulator will need to be enhanced to implement the new telecom law effectively, in particular to enforce ex-ante the legislation dealing with operators with significant market power. Complete separation of regulation from ownership needs to be ensured. The transposition of dispute resolution requirements remains to be done. The Community interconnection regime needs to be fully implemented as soon as possible and proper arrangements for universal service (including an appropriate universal service compensation mechanism) need to be made.

Concerning postal services, further alignment with the *acquis* is needed. Main issues still to be dealt with are the ensurance of effective supply of universal services with proper quality of service and at affordable prices. Further clarification is needed concerning the compensation fund mechanism. Moreover, full independence and autonomy of the national regulatory authority in this area needs to be ensured. Concerning the universal service obligation. A discrepancy exists linked to the non obligation from the incumbent side to deliver cross-border parcels beyond the 10kg threshold. Finally, systems for cost accounting and accounting separation need to be put in place. The national regulatory

authority in this area (Communications Regulation Commission) still appears under-resourced.

Conclusion

Significant legislative progress has been made since last year's Regular Report.

Bulgaria has achieved a reasonable degree of alignment with the regulatory framework in the area of telecommunications and focus should now be on implementation which needs to be complemented by decisive action on the future of the incumbent operator. The administrative capacity of the regulator for telecommunication and postal services needs to be improved.

Negotiations on this chapter have been provisionally concluded. Bulgaria has been granted a transitional arrangement until end December 2008 regarding the implementation of number portability. Bulgaria is meeting the majority of the commitments it has made in the accession negotiations in this field. There were delays in the adoption and implementation of the legislation required to open the telecoms market, but progress has been made.

Chapter 20: Culture and audio-visual policy

Progress made since the last Regular Report

Concerning **audio-visual policy**, the Protocol Amending and Supplementing the European Convention on Transfrontier Television was promulgated in October 2003.

Both the budget and staff of the regulatory authority, the Council of Electronic Media (CEM) have been slightly increased. Financing for the CEM, the Bulgarian National Television (BNT) and the Bulgarian National Radio (BNR) from the Radio and Television Fund is unavailable since subscribers have not been charged fees to date. Several decisions were adopted by the CEM in the reporting period, including on a methodology for the conduct of monitoring and on the introduction of a system for labelling programmes for the protection of infants and minors. Efforts are ongoing to improve co-ordination with other relevant bodies such as the Communications Regulation Commission and the National Council on Radio Frequency Spectrum.

A proposed Strategy for Development of Radio and Television Broadcasting supposed to give a long-term vision of the development of the radio and television sector has not been adopted by the Parliament as a result of which no licensing can be carried out by the CEM for the time being. The procedure for licensing the third national TV operator was finalised by the Communications Regulation Commission without the participation of the CEM.

Bulgaria continued to participate in the Media Plus and Media Training Community programmes.

In the area of **culture**, Bulgaria continued to participate in the Culture 2000 programme.

Overall assessment

The adoption of a new Law on Radio and Television Broadcasting in 1998, which was amended in September 2000 and November 2001, has brought Bulgarian legislation largely into line with the acquis. However, Bulgaria needs to take further steps to ensure predictable, transparent and effective implementation of the regulatory framework for audiovisual policy. In that regard, the delay of the Parliament in adopting the Strategy for the Development of Radio and Television and the non-existence of the Radio and TV Fund foreseen by the Law due to the non charging of subscribers' fees are matters of concern. The current legal uncertainty in the licensing of (mainly) regional operators (including re-licensing) should end.

Despite the provision in existing legislation that all radio and television programme services on the country's territory must be monitored, monitoring is limited to radio and television programme services provided in the Sofia area; regional broadcasting services are covered only occasionally.

The administrative capacity of the regulator in the audiovisual field needs to be enhanced, particularly as far as monitoring of regional and local broadcasters is concerned, in order to ensure equal treatment of broadcasters both at national and regional level. The regulator also still lacks sufficient office space and staff (10 of the 64 posts envisaged are vacant).

Conclusion

Some progress has been made since the last Regular Report.

Bulgaria's legislation is largely in line with the acquis, but it needs to take further steps to ensure predictable, transparent and effective implementation of the regulatory framework.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

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

Progress made since the last Regular Report

On **territorial organisation**, no further developments are to be reported.

As regards the **legislative framework**, further legislation with relevance to regional policy and Structural Funds preparation has been adopted. First steps have been taken with respect to multi-annual budgeting. The legislative framework for financial control and compliance with other Community policies is monitored in other chapters.

Bulgaria has made some progress in strengthening its **institutional structures**, primarily at central level, with regard to the implementation of EU structural policies. The Management of EU Funds Directorate and the National Funds Directorate within the Ministry of Finance, which have been designated future Managing Authority and future Paying Authority respectively under the Structural Funds, have increased staff levels and are involved in a broad range of training and capacity-building measures. The Agency for

Economic Analysis and Forecasting within the Ministry of Finance was restructured and strengthened with a view to its new role of revising the 2000-2006 National Development Plan and preparing the future Development Plan and other programming documents relevant to the Structural Funds. In March 2003, a further restructuring of the Ministry of Regional Development was implemented creating, amongst others, a new department for Regional Development Programming with staff at central and regional level. Further changes were also made in the Ministry of Labour to prepare for its future role under the Structural Funds.

As regards **programming**, the National Development Plan (NDP) was updated and improved, and was adopted by the Government in June 2003. Work on the revision of the NDP was co-ordinated by the Agency for Economic Analysis and Forecasting and involved all key line ministries with future responsibilities under the Structural Funds. In order to facilitate inter-ministerial co-ordination in relation to programming, a Co-ordination Council for the NDP, made up deputy ministers of all relevant Ministries, was set up and became operational.

No noticeable progress has been made on the implementation of the partnership principle with representative Commissions for Social and Economic Cohesion at regional level being dormant, and with social and regional partners involved only to a limited extent in the revision of the NDP.

No developments can be reported in the area of **monitoring and evaluation**.

With regard to **financial management and control**, Bulgaria has made progress with adjustments to legislation on internal financial control and further clarification of the role of the Public Internal Financial Control Agency (PIFCA).

No significant developments can be reported with regard to **statistics**.

Overall assessment

A provisional NUTS classification, including six NUTS 2 level regions, has already been agreed with the Commission.

While Bulgaria has made progress with regard to the legislative framework, more needs to be done. Bulgaria's budget legislation and procedures do not yet provide for multi-annual budget programming and the flexibility required for implementation of Structural Funds programmes. This needs to be addressed.

As regards the compatibility of operations by the Structural (and Cohesion) Funds with Community policies and legislation, work has to progress to ensure that the newly transposed legislation is adequately implemented. Bulgaria must give particular attention to public procurement issues in relation to future implementation of Structural and Cohesion Funds, and must draw on experience from implementing the pre-accession instruments in order to determine the appropriate designation of responsibilities and overall control and supervision of procedures.

With regard to institutional structures, Bulgaria has made progress in the design of the basic delivery structure for the Structural and Cohesion Funds. However, considerable further work is needed to strengthen inter-ministerial co-ordination, to designate

Intermediate Bodies (IB) and to define the tasks to be performed by the IB and other ministries to be involved in implementation of the Structural Funds. Adequate attention must also be given to effective co-operation and communication between central and regional level implementing structures and to a substantial strengthening of the capacity of potential Final Beneficiaries at the regional and local level.

Administrative capacity related to the preparation and implementation of Structural Funds has improved in a limited part of the central government, e.g. the Ministry of Finance, but generally remains weak. Where this has not already been done, credible human resources and career development strategies and plans must be implemented in order to retain qualified and experienced staff.

While some progress has been made in relation to programming and the revision of the National Development Plan, further work and revision are needed to bring the development process and the contents of the programming documents into line with EU requirements. Co-ordination and co-operation between ministries as well as with relevant agencies and other stakeholders (e.g. social partners and regional actors) needs to be considerably reinforced. Bulgaria must also vigorously pursue the development of its capacity to discuss, prepare and select development priorities and projects both at national and regional level.

Bulgaria has not yet taken noticeable steps with regard to the introduction of efficient monitoring and evaluation systems in line with EU requirements.

Bulgaria still needs to make further progress in the field of financial management and control, i.e. by setting up the bodies, structures and specific procedures for financial control, auditing, certification of expenses, and correction of irregularities specifically applicable to the Structural and Cohesion Funds. Particular attention needs to be paid to an adequate separation of functions in this context between the authorities involved.

On statistics, further improvements are needed with regard to the availability and accuracy of regional statistics.

Conclusion

Since the last Regular Report, Bulgaria has made some progress with regard to preparations for the implementation of Structural and Cohesion Funds, notably with regard to central institutional structures and programming.

However, considerable efforts are still needed at central and local level to strengthen the structures, clearly define their competencies and bring administrative capacity up to the level required. Greater appreciation of the scale of the task ahead is necessary, as well as a firm commitment to draw on the lessons to be learned from implementing the pre-accession instruments. Bulgaria should direct further efforts in the development as well as in the consolidation and completion of institutional structures both at central and regional level. This will include, amongst others, the designation of intermediate bodies and their tasks, and the strengthening of inter-ministerial co-ordination. Focus should be given in particular to the introduction of efficient and fully transparent procurement and financial management and control systems as well as to effective monitoring and evaluation systems.

Negotiations on this chapter continue.

Chapter 22: Environment

Progress since the last Regular Report

Some progress on the **integration of environmental protection into other policies** could be recorded in certain areas, such as agriculture and transport, but progress remains weak in other sectors, such as energy.

In the field of **horizontal legislation**, the Environmental Protection Act adopted in September 2002 provides the necessary legislative framework for further progress on environmental impact assessment and access to information. It was supplemented by implementing legislation on the conditions for carrying out environmental impact assessments in respect of investment proposals, on a public register of experts, and on the integration of environmental impact assessments into national, regional, local and urban development plans and programmes.

As regards **air quality**, good progress could be recorded, in particular the adoption of legislation on the sulphur content of liquid fuels. Implementation plans have been prepared for the sulphur content of liquid fuels and for volatile organic compounds from the storage and distribution of petrol.

In the area of **waste management**, good progress on legal alignment has been made with the adoption in September of the law on waste management. The National Waste Management Programme needs to be updated for the period 2003-2007. Implementation plans have been prepared for packaging and packaging waste, for landfill of waste, and for end-of-life vehicles.

In the field of **water quality**, further progress could be noted, namely the setting-up of the new basin management authorities for the four river basins, which included substantial increases in staffing levels. An implementation plan for urban waste water treatment and a partial inventory of discharges of dangerous substances have been prepared.

In the field of **nature protection**, further alignment as regards birds and habitats was achieved through the adoption of a new law on biological diversity in September 2002. Some progress was also recorded on legislation relating to issuing permits for the introduction of non-native species into nature and the preparation of action plans for endangered plant and animal species. Administrative capacity has been increased at central level and in the three national parks. Good progress has been made in awareness-raising and in relation to the involvement and participation of other bodies or interest groups in the area, including at local level.

As regards **industrial pollution control and risk management**, following the adoption of the Environmental Protection Act in September 2002 good progress has been recorded in preparing for implementation of industrial pollution and prevention control (IPPC). Competent authorities have been designated and inventory of installations has been completed. Implementing legislation on issuing of permits and on eco-labelling and eco-management have been adopted. Administrative capacities have been increased, with 30

new inspectors in the regional environment inspectorates. Implementation plans have been prepared for IPPC and for large combustion plants.

As regards **genetically modified organisms**, no progress has been made and delays have occurred compared to Bulgaria's internal schedule.

In the area of **chemicals**, progress has been made in the transposition of the *acquis* with the adoption of legislation on the prevention and reduction of environmental pollution by asbestos and on the protection of experimental animals, as well as in relation to ozone-depleting substances. A database incorporating lists of dangerous substances has been created and procedures for carrying out risk assessments and imposing temporary restrictions have been established. Seven more experts have been appointed to the new "chemicals" sector at the Ministry of the Environment and Waters.

No further developments could be recorded in the area of **noise**.

In the field of **nuclear safety and radiation protection** (*see also Chapter 14 – Energy*), no progress has been made since the adoption of the Law on the Safe Use of Nuclear Energy in June 2002.

As regards **administrative capacity**, noticeable efforts have been made to increase staffing levels in government bodies. More than half of the 534 new positions planned for 2003 had been filled by the end of September. New resources are being focused mainly on local administrations: the regional inspectorates are being reinforced with 175 of these new positions and the river basin directorates with 145. At the end of 2002, the Ministry of the Environment employed 1 052 staff.

Overall assessment

Since the last Regular Report, Bulgaria has attained a good degree of legislative alignment, having now transposed substantial parts of the environment *acquis*, except in the areas of genetically modified organisms and noise. In the field of nuclear safety and radiation protection, transposition needs also to be completed. In the field of water quality, the Water Framework Directive needs to be fully transposed. New legislation on genetically modified organisms, and to some extent on water quality, need to be prepared soon if Bulgaria is to keep to its internal schedule for legislative alignment.

Detailed implementation plans for key EC directives have been developed and adopted together with financing strategies. These now need to be matched by the planned resources and institutional strengthening. This will again require significant time and effort and the elaboration of mechanisms to monitor effective implementation of these plans.

As regards waste management, Bulgaria should focus efforts and resources on the adoption of an updated waste management programme for the years 2003-2007, and on the setting-up of waste collection systems and recovery and disposal facilities. Attention should also be paid to the schedule for implementation as regards air quality (assessments of ambient air quality, monitoring systems, and plans and programmes), water quality (designation of sensitive areas and identification of vulnerable zones, preparation of inventories (e.g. of discharges of dangerous substances, manure storage capacities) and programmes, and permits and monitoring), industrial pollution and risk management

(integrated permits, compliance programmes), chemicals and genetically modified organisms (authorisation and notification procedures), nature protection (management and protection of habitats and species, protection and conservation areas), and nuclear safety and radiation protection. Inter-ministerial co-ordination has improved, notably in the case of investments in infrastructure and nature protection, where sound and complete environmental impact assessments must be prepared. These should be enhanced.

Although certain improvements are beginning to emerge in areas such as industrial pollution and pollution control, most of the observations made in previous years as regards the environmental situation in the country remain valid. Major parts of industry and of the general public are not well aware of environmental issues. A focal point for attention should be awareness raising of public and industry about environmental issues, given their role in contributing to successful implementation of environmental legislation.

The principle of integration requires continuous attention both at national and at Community level. Bulgaria needs to continue integrating environmental protection requirements into the definition and implementation of all other sectoral policies so as to promote sustainable development, including in the energy sector. In this respect, inter-ministerial co-ordination on issues related to the environment needs further strengthening.

Bulgaria's administrative capacity to implement the *acquis* has required close attention, and the Government has taken important decisions with a view to strengthening government bodies at regional and central levels. Further actions to improve the qualification of existing and newly recruited staff should be developed. These should be matched by actions at the local level, notably in municipalities, where staff and financial resources remain limited and awareness of the requirements of EC environmental rules remains weak.

Considerable investments need to be secured, also in the medium term, to ensure implementation of the environmental *acquis*. Bulgaria should focus on the planning, identification and availability of financial resources. Steps must be taken to ensure that the reorganisation of administrative structures, i.e. the creation of a new enterprise replacing the National Environment Protection Fund, does not hamper public co-financing. In addition, the management of support funds, including ISPA, should continue to be enhanced.

Conclusion

Since the last Regular Report, Bulgaria has continued to make progress in transposing the environmental *acquis*, and has recorded good progress in preparing and taking practical measures to implement legislation, including the preparation of implementation plans for certain directives and the necessary increases in administrative capacity.

Bulgaria has achieved a generally good level of legislative alignment, but full implementation and the availability of budgetary resources still pose a major challenge, although Bulgaria has started to take measures to improve its administrative capacities. The cost of alignment still poses a major challenge.

Negotiations on this chapter have been provisionally closed. Transitional arrangements until 2011 for the sulphur content of liquid fuels, until 2009 for emissions of volatile organic compounds from the storage and distribution of petrol, until 2011 for the recovery and recycling of packaging waste, until 2014 for the landfilling of certain liquid wastes, until 2009 for certain shipments of waste, until 2011 for IPPC (in respect of certain existing installations), until 2014 for urban waste water, and until 2014 for large combustion plants have been agreed. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 23: Consumer and health protection

Progress since the last Regular Report

No developments can be reported in the area of **safety-related measures**.

Little progress has been made in further developing a functioning **market surveillance** system. In October 2002 the administrative capacity of the Consumer Protection Department of the Ministry of Economy, responsible for consumer protection policy and drafting of legislation, was slightly strengthened (by increasing staff from six to eight experts). With regard to the Commission for Trade and Consumer Protection (CTCP), the main enforcement body, no changes to the number of staff were made, though its responsibilities were increased with the entry into force of the Law on Tourism. This body, which is responsible for enforcement of the Law on Consumer Protection and Trade Rules, undertook inspections in the area of safety of products and non safety-issues (labelling, price indication, misleading advertising, unfair contract terms, distance contracts). A total of 20 894 inspections was made between September 2002 and the end of April 2003. 95 orders for final bans on the sales of products that turned out to be dangerous were issued and the relevant products were withdrawn from the market. In March 2003, the Commission for Trade and Consumer Protection and the State Metrology and Technical Surveillance Agency agreed to co-ordinate their activities in the area of market surveillance. In July 2003, a similar agreement was reached with the Customs Agency in relation to the control of products imported from third countries.

Concerning **non-safety related measures**, implementing legislation to the Law on Tourism entered into force in January 2003 aiming at transposing the *acquis* on package travel.

The Conciliation Commissions are tripartite bodies including representatives from the CTCP, a professional organisation and a consumer organisation and aim at assisting the parties in the voluntary settlement of consumer disputes. Legislation adopted in February 2003 increased the number of Conciliation Commissions from 9 to 24, thus facilitating access of consumers to out-of-court dispute settlement. Furthermore, some improvements to the functioning of these bodies were introduced in March 2003 through amendments to the Rules for Conciliation Commissions. From September 2002 until April 2003 conciliation commissions were involved in 42 consumer disputes but only in 12 cases out-of-court-settlement were reached. However, the changes introduced should facilitate the conciliation procedure.

In relation to **consumer organisations**, the number of consumer NGOs increased from nine to eleven. Seven of these NGOs are now incorporated in one umbrella organisation, the National Union of Consumer Associations, which was created in 2003 with a view to

establish a stronger and more coherent consumer movement. Funding from the government to consumer associations increased from €45 000 in 2002 to €51 000 in 2003.

Overall assessment

Further alignment with the *acquis* is needed in the area of safety-related measures, including transposition of the revised directive on general product safety. The *acquis* on product liability and on dangerous imitations needs to be fully transposed.

The efficiency of the Commission for Trade and Consumer Protection in checking the safety of products has improved. Though Bulgaria is starting to take measures to give an appropriate follow-up to the 2002 peer review on market surveillance concerning products covered by the general product safety directive, further efforts are needed to put in place an efficient market surveillance system. In particular, the elaboration of a coherent market surveillance strategy is still needed. Specific areas for action include widening the scope and quality of market surveillance checks, upgrading the technical knowledge of the inspectors, and improving the level of co-ordination between market surveillance bodies.

With regard to non-safety related measures, further alignment with the *acquis* is needed, i.e. in the areas of consumer credit, timeshare property, distance contracts, comparative advertising, injunctions for the protection of consumers' interests, sale of consumer goods and associated guarantees, and the new *acquis* on distance marketing of consumer financial services.

Efforts to improve the functioning of the Conciliation Commissions need to be continued. As in previous years, the number of cases, which have not led to the conclusion of an agreement between the parties, remains high. With a view to enhanced enforcement of consumer protection legislation, Bulgaria should further strengthen the administrative capacity of the main bodies in charge of consumer protection. The administrative capacity of the Commission for Trade and Consumer Protection is still weak, in particular following the new responsibilities regarding the Law on Tourism. There is still a counterproductive overlap of functions of the Consumer Protection Units, partially established within municipal authorities, and the local offices of the Commission for Trade and Consumer Protection.

The role and activity of the National Council on Consumer Protection should be further promoted. The Council, as a consultative body to the Ministry of Economy, could play a higher role in formulating the main principles and objectives of Bulgarian consumer policy.

Overall, consumer policy should be given a higher priority and the capacity of consumer organisations should be further promoted to enable them to play an active role in enhancement of consumer legislation and its implementation. The level of consumer awareness in Bulgaria remains low and consumer concerns are not sufficiently integrated in other policy areas.

Conclusion

Since last year's report, Bulgaria has made some progress in aligning with the *acquis* in the area of consumers and health protection.

While Bulgaria has achieved a reasonable degree of alignment in the area of safety related measures, it still needs to finalise its legislative framework, particularly in the non-safety related areas. Therefore, a considerable part of the *acquis* still needs to be transposed and administrative capacity needs to be enhanced to ensure a functioning market surveillance mechanism. Increased efforts are needed to transpose the *acquis* on consumer protection and to enforce it. Attention must be paid to the promotion of consumer organisations.

Negotiations on this chapter have been provisionally concluded. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

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

Progress since the last Regular Report

Further legal progress can be reported in the area of **data protection** with the entry into force in December 2002 of the implementing regulation of the law on Classified Information Protection. In February 2003, the rules for data retrieval and protection in the law enforcement area were changed, bringing Bulgarian legislation in line with the basic principles of Recommendation of the Council of Europe on the use of police information and the 1981 Convention on data protection. The Commission for Personal Data Protection currently employs ten persons and is in a process of strengthening its administrative capacity through additional staff, equipment and training.

In the area of **visa policy**, the technical equipment, necessary for issuing the new sticker is in the process of being installed in all diplomatic and consular representations. Priority has been given to missions in Europe and high-risk migration countries. The administrative capacity of the Visa Centre of the Bulgarian Ministry of Foreign Affairs has been further increased with the recruitment of 21 officers. The Visa Centre is also connected with the computer network of the Bulgarian border check points which enables automatic transfer of all the data into the Border Police database, as well as with the office of the alien's control authorities. At present 66 diplomatic and consular missions are connected to the Visa Centre. The remaining 27 diplomatic missions are in a process of being connected. Training of consular staff is continuing and is assured by a special Training Centre for consular personnel within the Visa Centre.

Bulgaria has updated its **Schengen Action Plan**. The implementation is now ongoing for 18 months and has led to further positive changes in Bulgaria's policy towards the establishment of a high level of control at the **external borders**. One of the main accomplishments in the reporting period has been the phasing out of all conscripts in the border police by the end of December 2002. Currently the total staff of the National Border Police Service is 8 162. Short-term specialised border police training courses have started as of April 2003 for newly appointed officers. Bulgaria is in the process of substantially upgrading its high-tech equipment for border control and has continued to

do so over the reporting period. Priority in the order of installation of the equipment is being given to the external borders with Turkey and the Black Sea Coast. A new Automated Information System on 'wanted vehicles' is now fully operational. As regards co-operation of the border police with neighbouring countries, the Council of Ministers approved new Agreements based upon Article 7 of the Convention implementing the Schengen Agreement, with Greece and with Romania in April 2003.

Important progress in aligning with the **migration acquis** can be reported. Amendments to the law on Foreign Nationals for further alignment with the *acquis* on carrier liability, the establishment at the National Police of special facilities for temporary accommodation of foreign nationals waiting for expulsion and the creation of a National Register of foreign nationals staying in the territory of Bulgaria were adopted on 9 April 2003. Once amendments to the Interior Act have been adopted, they should provide for, among others, the legal framework for the setting up and functioning of a Migration Directorate in the Ministry of the Interior. This Migration Directorate will be a specialised unit responsible for administrative control over the stay of foreign nationals in Bulgaria. Bulgaria continued its efforts to combat illegal employment. Between April 2002 and December 2002, 80 illegally employed foreigners and 7 employers were detected. Bulgaria has concluded readmission agreements with all EU Member States, including the United Kingdom in February 2003. Furthermore, an agreement with Estonia was concluded and negotiations are ongoing with Turkey, Russia and Tunisia and Cyprus.

The new law on **asylum** and Refugees entered into force in December 2002. It provides provisions on the role of the Agency for Refugees, the procedure to apply for asylum, the procedures for taking a decision, and the accelerated procedure. The new legislation is also containing the main provisions of the criteria and mechanisms for determining the responsible Member State (Dublin Regulation), authorising the Agency for Refugees, in co-operation with the relevant bodies of the Ministry of the Interior, to take fingerprints and other identification characteristics of foreign nationals seeking protection. For achieving full alignment between the two laws and in order to align the legislation with the EURODAC Regulation, an amendment to the Ministry of Interior Act has been adopted by Parliament in February 2003. The Agency for Refugees has its own database, containing all documents and data related to the identity of asylum seekers, which have become known during the procedure. The number of asylum seekers in Bulgaria remains limited. Between June 2002 and June 2003, 1.631 asylum requests were lodged.

One of the main accomplishments in the reporting period in the area of **police co-operation and combating organised crime**, was the signature of a co-operation agreement with EUROPOL in June 2003. Further legal alignment with the *acquis* in police co-operation has been reached with the entry into force in February 2003 of amendments to the Ministry of Interior Act providing the legal basis for setting up an international operational police co-operation unit: the National Contact Point (NCP). The Rules Implementing the Ministry of the Interior Act for covering the NCP were adopted by the Council of Ministers in April 2003. In the future the NCP will also incorporate the national SIRENE and EUROPOL desks. Furthermore amendments to the Penal Code entered into force in October 2002 providing a legal definition of 'organised crime groups'. They also take into account other provisions of the *Joint Action of 21 December 1998 on making it a criminal offence to participate in a criminal organisation* and the *UN Convention against Transnational Organised Crime*. Furthermore, it aligns the Bulgarian legislation with the *Joint Action of 24 February 1997 concerning action to*

combat trafficking in human beings and sexual exploitation of children by criminalising the possession of child pornography. A new chapter on Cyber Crime, aligning with the provisions of the *European Convention on Cyber Crime*, (which was signed in 2001) has also been incorporated. With the amendments to the Penal Procedure Code in May 2003 further progress was made with respect to the rules of procedure. Henceforth, the defendant may request the first instance court to consider his case if the indictment act was issued two or three years earlier, depending on the seriousness of the crime. Moreover, the possibility of closing a criminal case by an agreement reached in court was re-established and the notion of under-cover police agent was introduced. Amendments were also made to improve the international legal assistance in criminal matters: a mechanism was established for transfer of persons and providing legal assistance in criminal matters to international courts such as the International Criminal Court and the International Criminal Court for ex-Yugoslavia. As regards administrative capacity, Bulgaria considerably improved its capacity of training police officers in the area of human rights. A task force within the National Police Service has been set up and elaborated the Community Policing Strategy (improvement of the contacts with the civil society), which the Minister of the Interior approved in October 2002. In November 2002 the National Strategy for Counteracting Crime 2002-2005 was adopted by the Council of Ministers, followed by the adoption of an Action Plan for its implementation in February 2003. The Strategy and Action Plan covers prevention, corruption, terrorism and organised crime and is divided into short-term, medium-term and long term actions. In December 2002 preparatory activities started for the establishment of the Unified Information System for Combating Crime. The system is supposed to facilitate co-operation between law enforcement bodies by rapid exchange of data and to provide information on the state of play of penal proceedings and enforcement of sentences.

As regards the **fight against terrorism**, Bulgaria adopted a law on measures against the financing of terrorism in February 2003. The law seeks to prevent and detect acts connected with the financing of terrorism by instituting measures such as the possibility to freeze financial assets. Amendments in order to improve the exchange of information between the Financial Intelligence Agency and the Ministry of the Interior entered into force in April 2003. In September 2003 the Council of Ministers adopted a Decision on the adoption of a list of natural persons, legal persons, groups and organisations that are subject to the measures under the Law on the Measures against the Financing of Terrorism.

As regards the **fight against fraud and corruption** (*see also Section B 1.2 – Democracy and the Rule of Law*), the above mentioned amendments to the Penal Code, which entered into force in October 2002, contain provisions for alignment with the *Convention on the Protection of the European Communities' Financial Interests* (1995) (*see also Chapter 28 – Financial Control*). These amendments align the Bulgarian Penal Code with Articles 2 and 3 of the same Protocol on passive and active corruption. Bulgaria must make further efforts to fully align with the EU *acquis* in the field of criminal law protection of the Communities financial interests. In May 2003, Bulgaria signed the Additional Protocol to the Council of Europe Criminal Law Convention on Corruption. A Co-ordination Council in the area of combating offences against the financial interests of the European Communities was established in February 2003. The Co-ordination Council is chaired by the Minister of the Interior. Bulgaria is in the process of implementing its National Anti-corruption strategy and Action Plan. Most recently codes of ethics have been elaborated for judges and prosecutors. The Internal Corruption Department in the Ministry of Interior received 264 corruption-related complaints involving 293 officials in

2002. The competent authorities completed the investigations concerning 312 officials in 2002 (100 complaints not sustained, 104 officials disciplined, 50 officials imposed administrative sanctions and 58 cases submitted to the prosecution authorities). In the first three months of 2003 34 corruption-related complaints, involving 43 officials of the Ministry of the Interior were received. However, government statistics on corruption-related cases for the period 1999-2002 show that the number of revealed cases, as well as the number of people who were prosecuted and convicted of corruption, have dropped over the two last years. Administrative capacity has been further strengthened at local level. Since October 2002, the number of specialised officials in the area of corruption has increased by 24 and now stands at 58 in the 28 regional units for combating organised crime. This brings the total number of specialised officials to 80. In January 2003 the official web-site of the National Police Service was launched where citizens can obtain information and file complaints. Bulgaria has taken measures aimed at complying with Council Framework Decisions on the protection of the euro against counterfeiting. Bulgaria should further align its legislation in this area, especially with a view to reinforcing criminal sanctions, and ensure full implementation of this *acquis*.

Important progress was made in the area of **fight against drugs** with the adoption of the National Drugs Strategy in February 2003, covering the period 2003 – 2008. The Strategy is in line with the EU Drug Strategy 2000-2004. Furthermore, in April 2003 an Action Plan for the implementation of the Strategy was adopted. The Action Plan specifies concrete measures and tasks for implementation of the strategic objectives and tasks defined in the Strategy as well as the responsible agencies. It will be reviewed and updated annually and the implementation will be co-ordinated by the National Drugs Council. As regards the establishment of a National Focal Point (NFP) in compliance with the requirements of the European Monitoring Centre for Drugs and Drug Addiction, the National Drugs Council adopted a Decision (in December 2002) according to which the NFP will be established at the National Drug Addictions Centre within the Ministry of Health. Further efforts have been done to strengthen the law enforcement side with the adoption in February 2003 of an amendment to the Ministry of the Interior Act. This provides for an extension of the powers in the field of undercover operations and controlled deliveries for the officers of National Service to Combat Organised Crime. Furthermore, amendments to the Penal Procedure Code have been adopted in May 2003 introducing provisions permitting the interrogation of undercover officers as witnesses in a criminal case while ensuring that the personal identity is kept secret. Furthermore, Bulgaria signed the 1995 Council of Europe *Agreement on illicit traffic by sea, implementing Article 17 of the UN Convention against illicit traffic in narcotic drugs and psychotropic substances* in May 2003. Finally, with the amendment to the Control of Narcotic Substances and Precursors Act adopted in May 2003, Bulgaria introduced stricter rules on business licenses for legal entities engaging in retail or wholesale trade in narcotic substances and precursors.

Further alignment with the *acquis* in the field of **money laundering** (see also Chapter 4 – *Free Movement of Capital*) can be reported. In April 2003, amendments to the Measures against Money Laundering Act entered into force. The amendments provide *inter alia* for the transformation of the Bureau of Financial Intelligence into the Financial Intelligence Agency (FIA), enlarging the scope and operational independence of the FIA, extending the circle of entities obliged to identify their clients and report suspicious operations and more precise regulation of the co-operation between the FIA and the law enforcement authorities. In August 2003, the rules for implementation of the Measures against Money Laundering Act entered into force. They enlarge the circle of obliged

institutions including legal professions and real estate agents. As regards the administrative capacity of the FIA, the total number of staff of the FIA is 34. Further training is being provided on a permanent basis. According to its annual report 2002 FIA received 220 reports on suspicious transactions, out of which 170 operational files were opened. 50 operational files were completed and submitted to the public prosecutor in 2002. The amounts covered by suspicious transactions have risen substantially in 2002. As regards inter-agency co-operation, various instructions on interaction between the FIA and other institutions were signed. As regards international agreements in this field, a memorandum of understanding was signed with Finland in May 2003,

As regards **customs co-operation** Bulgaria is further preparing for the implementation upon accession of the *Convention on Mutual Assistance and Co-operation between Customs administration* of 18 December 1997 and to the *Convention on the use of information technology for customs purposes* of 26 July 1995. Bulgaria will make reservations to special forms of co-operation provided for in articles 20 (8), 21 and 23 (5). In the context of its preparation Bulgaria is increasing the capacity of the Customs Administration to deter and detect custom offences as provided for in the Customs Act and the Road Traffic Act. Mobile customs teams are being trained and the five existing teams have been reinforced by three others at the end of 2002 and by another two during the second quarter of 2003. The above-mentioned amendments to the Ministry of Interior Act of February 2003 introduced the legal framework for undercover operations. Furthermore, an amendment to the Penal Procedure Code in order to provide custom officials with powers to carry out criminal investigations for custom offences entered into force on 24 June 2003. As regards Bulgaria's preparation for implementing the 1995 Convention on the Use of Information Technology for Customs Purposes, in December 2002 the Rules for implementation of the Classified Information Protection Act were adopted. As regards the fight against "irregularities" amongst which corruption, during the reporting period internal control has been further improved through on-the-spot checks, enhanced control on the financial status of Customs Administration officials at all levels and the establishment of a Customs Officer Motivation Fund, financed by the State budget. The fund amounted to €1,8 M in 2002, and €475.000 for the first quarter of 2003.

Some progress has been registered in the field of **judicial co-operation in criminal and civil matters**. The amendments to the Penal Code, adopted in May 2003, will enable Bulgaria to accede to the *Convention on Simplified Extradition Procedures between the Member States of the EU*. In June 2003 Bulgaria deposited the instrument of ratification on the European Convention on the Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children with the Secretary General of the Council of Europe. The Convention entered into force for the Republic of Bulgaria in October 2003. In May 2003 Bulgaria deposited the ratification instrument on the Hague Convention on the Civil Aspects of International Child Abduction and the Convention entered into force in August 2003. The National Assembly adopted amendments to the Family Code related to the ratification of the two Conventions in July 2003. Amendments to the Civil Procedure Code were adopted in September 2003. The amended Penal Code of October 2002 contains provisions aligning further with the Convention on the Protection of the European Communities' Financial Interests.

Bulgaria is party to all **human rights legal instruments** that are part of the justice and home affairs *acquis*.

Overall assessment

Legal alignment in the area of data protection has been completed. The administrative capacity of the Commission for Personal Data Protection (CPDP) has been strengthened but further efforts are required in terms of staff, training and equipment in order to make the CPDP fully operational. Suitable premises should be allocated as a matter of priority. Bulgaria needs to speed up the setting up and registration of automated databases and to make the security unit in the Ministry of Interior fully operational.

As regards visa policy, alignment to the so-called negative list was almost completed already in 2002. Visas for nationals from Serbia and Montenegro, FYROM will be introduced upon accession and for Tunisia in December 2003. As regards the so-called EU positive visa list, Bulgaria still has to align its visa policy for 20 countries, most of them being Latin American countries. The administrative capacity of the visa centre has been further enhanced. Bulgaria is in a process of providing the necessary equipment to its diplomatic and consular missions. For the time being 30% of the Bulgarian diplomatic and consular missions are equipped with basic equipment to detect forged or falsified documents, mainly in the high-risk migration countries. Training of consular staff has considerably improved.

As regards external borders and preparation for Schengen, good progress could be noted and it would be important that implementation continues in line with the indicated timeframe. Bulgaria has shown a good understanding of the two-stage implementation of the Schengen *Acquis* and is implementing activities accordingly. Following the Schengen Action plan, further legal changes are required, in particular to the Ministry of Interior Act. Those changes are necessary to align with EU practices and concern issues related to border control and management such as specific activities carried out by the Border Police in respect of combating trans-border crime and terms and procedure for crossing the state border of Bulgaria, as well as the type and scale of mandatory border controls. Upgrading infrastructure and equipment is ongoing with priority being given to the borders with Turkey and the Black Sea. Attention should also be given to the future external border with Serbia and Montenegro and with FYROM. Bulgaria should intensify efforts to start negotiations on border co-operation with all countries bordering its external borders. Moreover, co-operation between Bulgarian law enforcement bodies at the borders needs to be significantly strengthened.

The reported legal progress in the field of migration, is an important step towards full alignment with the migration *acquis*. Further efforts should focus on a swift implementation of the new legislation as well as on further enhancing the administrative capacity. The establishment of a National Migration Service is recommendable and would considerably strengthen Bulgaria's capacity to better co-ordinate activities in this field. The capacity to temporarily accommodate illegal aliens should be strengthened. As a country of origin and transit and, to a lesser extent, destination, Bulgaria also needs to take further measures against trafficking in women and prostitution.

Although, the entry into force of the new asylum legislation significantly improves the asylum procedures in Bulgaria, there remain some points of concern. These refer on the one hand to the exclusion and cessation clauses of the new law on Asylum and Refugees which need to be aligned with the *acquis* (1951 Geneva Convention). On the other hand, the right of protection of certain asylum seekers continue to be jeopardised due to provisions for refusal to enter the procedure for applicants who have failed to present

their asylum application within the required time. These provisions should be changed in such a way that it is made clear that passing these time limits cannot be the sole ground for the rejection of an asylum application. Bulgaria furthermore has started preparations for full implementation of the EURODAC Regulation. Rights and obligations of recognised refugees and persons granted a humanitarian status are guaranteed by the Law but due to limited financial possibilities, not always applied in practice. Bulgaria needs to upgrade its reception capacity.

Important legal progress can be noted in the area of police co-operation and combating organised crime. With the adoption of the new strategy and Action Plan for Counteracting crime, Bulgaria has made an important step in addressing a problem area by developing a long-term vision with clear priority setting underpinned by a strategic approach. It is important that the Action Plan is implemented according to schedule. Problems in the area of trafficking in human beings from or via Bulgaria continue and efforts to address these need to be intensified, especially in order to prevent former victims to fall again in the hands of traffickers. Co-operation between and co-ordination of activities of the different police services at national level and at regional level remain difficult due to the complexity of the criminal procedure. This problem should be addressed in the context of a complete revision of the procedures in the pre-trial phase.

Bulgaria is party to the major international agreements in the area of fight against terrorism. The adoption of the Law on measures against the financing of terrorism is an important positive step. Bulgaria still needs to ratify the second additional protocol to the Council of Europe Convention on Mutual Legal Assistance in Criminal Matters and make consecutive amendments to the Criminal Procedure Code in order to introduce the concepts of joint investigation teams, trans-border hot pursuit, controlled deliveries, audio and videoconferences and interception of telecommunications.

As regards the fight against fraud and corruption, despite some legal progress, Bulgaria needs to further align its legislation with the *acquis* in the area of combating fraud, especially as regards Article 1 of the 1995 Convention on the protection of the European Communities' financial interests. Furthermore Bulgaria's legislation does not cover liability of legal persons in the case of fraud as requested by the Second Protocol to the 1995 Convention. Bulgaria has strengthened its administrative capacity to combat fraud by setting up the Co-ordination Council in the area of combating offences against the financial interests of the European Communities in the Ministry of Interior. As regards the fight against corruption, the implementation of the strategy is ongoing. In particular the implementation of Bulgaria's envisaged measures in the law enforcement bodies subordinated to the Ministry of the Interior and the judiciary will need to be duly implemented. Problems remain as regards corruption within the (traffic) police and to a lesser extent the border police, and will need to be addressed in a more convincing manner.

In the field of the protection of the euro against counterfeiting, Bulgaria has made limited progress, and should continue to align its legislation and ensure full implementation of the *acquis*.

The adoption of the National Drugs Strategy and the recent adoption of its Action Plan are an important step in implementing an overall drug policy. The implementation of the Strategy in 2003 seems to be ensured through the budgets of various agencies involved. A co-ordination structure still needs to be set up and the National Focal Point is not fully

operational. This would need to be given priority. Various legal amendments have allowed Bulgaria to further strengthen the capacity of its law enforcement bodies in the fight against drugs.

Important progress was made in terms of legal alignment to the EU money laundering *acquis*. The administrative capacity of the FIA has been further strengthened and it is now fully staffed. The equipment, including the necessary IT connections which have to ensure the availability of electronic information need to be further upgraded. Efforts are ongoing to provide qualified training for the staff of the FIA as well as of other law enforcement agencies working in the field of money laundering. It is also encouraging that more and different reporting entities have submitted reports of suspicious transactions to the FIA over the reporting period. Although the number of files submitted to the public prosecutor has increased, to date there are still no convictions for money laundering cases. Finally, while overall inter-agency co-operation is improving, further efforts are required to establish and improve the co-operation with non-banking financial institutions, in particular the Insurance Supervision Agency and the State Commission for Gambling.

Further legal and administrative progress has been registered in the area of customs co-operation. Bulgaria seems to be well on track as regards its preparation for full alignment to the third pillar customs co-operation *acquis*. The combat of fraud and corruption within the customs is receiving continuous attention but it remains an area where swift and continuous action is needed.

As regards judicial co-operation in criminal and civil matters, Bulgaria still needs to accede to four important international conventions in criminal matters (European Convention on the Transfer of Proceedings in Criminal Cases; Convention between the Member States of the European Communities on the Enforcement of Foreign Criminal Sentences; Convention on Simplified Extradition Procedures between the Member States of the EU; Council of Europe Convention on the International Validity of Criminal Judgements) and should continue to prepare for this. In the field of further training of magistrates on judicial co-operation in criminal and civil matters various training courses, including language training have been delivered during the reporting period by the Magistrates Training Centre. As regards co-operation at EU level, contact points for co-operation with the European Judicial Network (EJN) have been appointed and Bulgaria is keeping regular contacts with the EJN, which is providing support to Bulgaria to build up effective judicial co-operation.

Bulgaria is party to all **human rights legal instruments** that are part of the justice and home affairs *acquis*.

Conclusion

Since last year's report, Bulgaria has made further important progress in strengthening the relevant institutions and in aligning with the *acquis*.

Bulgaria has achieved a satisfactory level of approximation with the *acquis* and the sectoral strategies for improving the efficiency of Bulgaria's justice and home affairs institutions are encouraging. Fundamental reforms have continued in several areas. Implementation of short-term priorities in the judicial reform programme is continuing. However, substantial efforts are still needed in terms of implementation and in particular

to further strengthen the administrative capacity in this area. Particular attention should be given to combating corruption in law enforcement bodies and to fighting various types of organised crime, and especially, drugs trafficking and illegal migration.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this field.

Chapter 25: Customs union

Progress since the last Regular Report

Amendments to the Law on Customs in April 2003 further aligned Bulgaria's legislation with the **customs acquis**. The amendments include provisions on transit, customs procedures with economic impact, free zones and free warehouses, placing under customs procedures and customs debt. They reflect the amendments to the Community Customs Code that were introduced in 1999 and 2000.

This Law also contains provisions equivalent to the Community's basic legislation on the Combined Nomenclature. The Customs Tariff of the Republic of Bulgaria adopted in October 2002 and effective from January 2003 is based on the Combined Nomenclature and introduces the Community practice of indicating conventional and autonomous rates and applying the lower of the two.

The Convention on Temporary Admission (Istanbul Convention) was ratified in December 2002.

Concerning the **administrative and operational capacity** to implement the *acquis*, progress was noted in the implementation of the strategy to rationalise border operations. The reform of the management of the regional customs directorates continued with the implementation of performance reviews and drafting of job descriptions. The use of electronic seals for high-risk goods was introduced in December 2002 and the facilities and infrastructure of the central customs administration were improved over the reporting period. The Law on Penal Procedure was amended in May 2003, providing customs officials with the power to carry out investigations on offences against customs regimes.

A new administrative penalty procedure was set up in July 2003 with the aim of speeding up the termination of such procedures.

The amendment to the Law on Customs adopted in April 2003 also introduced provisions on customs officials' integrity (obligation for the officials to provide information on their incomes and state of property). An updated version of the customs Code of ethics and conduct was adopted in May 2003, and training has been delivered for the implementation of the Code.

Cooperation with customs authorities of neighbouring countries has been strengthened. An agreement on customs cooperation and mutual assistance in customs matters with Moldova was signed in January 2003. Practical cooperation at the Kalotina (Bulgaria)/Gradina (Serbia) border post has led since April 2003 to the exchange of customs information lists on high-risk goods, as has been done since September 2002 at the Kulata (Bulgaria)/Promachonas (Greece) border post. A co-operation agreement was also signed in June 2003 between the National Customs Agency and two road transport

associations. Similar agreements were concluded with Bulgarian services responsible for consumer protection and technical standards.

Changes in the Law on Customs of April 2003 specified the tasks of the Customs Agency with regard to enforcement of measures against pirated and counterfeit goods. In July 2003, an agreement was concluded on co-operation with the Bulgarian Association of Music Producers.

Over the reference period, training of customs officers continued. The main topics covered were the protection of intellectual property, combating the unlawful use of pirated works, internal audit of systems and management control, corruption assessment and co-operation in combating evasion of customs duties.

As regards computerisation, the Bulgarian Integrated Customs Information System was deployed to all customs offices in June 2003, and work continued on the Bulgarian Transit Management System and on ensuring compatibility with the Community systems. Testing has been carried out on a customs debt module and internal communication networks have been finalised.

In April 2003 Bulgaria concluded a Memorandum of Understanding with the Community on participation in the Customs 2007 programme.

Overall assessment

Bulgaria has achieved a high degree of legislative alignment on the customs *acquis* until the year 2000. Continued work is needed as regards alignment with new *acquis*, e.g. with regard to precursors and economic regimes. Efforts are also needed concerning suspensions and tariff quotas, and concerning export controls on cultural goods. Further work is necessary in the fields of risk analysis and post-clearance controls.

Operational plans are still required for the implementation of the Business Strategy, in order to ensure that its strategic objectives are met.

The administrative capacity of the National Customs Agency has improved. This is due notably to the stable management in place since February 2002. Ten mobile teams are now operational and a number of issues and problems (such as under-valuation and mis-description) have been identified in the area of systems and procedures applied to enforce customs controls effectively, which are being addressed. Customs revenues are steadily increasing.

The National Customs Agency currently employs 679 civil servants under the Civil Servant Law and 3147 customs officers, inspectors and others under the Labour Code. Both categories are subject to the same internal rules of procedures and participate on an equal footing in the training programmes. Efforts are required in order to increase the percentage of staff with civil servant status, as well as to implement a fair and effective system for dealing with unprofessional behaviour by customs officials. Further work is necessary in the field of management of human resources.

The implementation of the customs aspects of the national strategy against corruption shows steady commitment by the Bulgarian authorities to tackling the issue of corruption. From January 2002 to March 2003, 218 customs officials were penalised, and 40 of them have been dismissed. Steps have been taken to improve co-operation between the various enforcement bodies, especially with mounting of joint operations with border police,

economic police and tax administration. However, there is a need to further improve the practical implementation of this co-operation. In addition, there are still a number of legislative barriers to closer co-operation.

On the basis of the amendment to the Law on Customs, the customs authorities have acquired explicit functions and tasks related to the enforcement of border measures aimed at protecting intellectual and industrial property rights (*see also Chapter 5 – Company law*).

In the field of computerisation, despite delays in the development of the Bulgarian Integrated Customs Information System (BICIS), work is considered to be on track for achieving interconnectivity with EC systems. To that end, projects in progress should be completed and human resources should be strengthened to achieve interoperability and insure a satisfactory level of operational capacity by the time of accession.

Conclusion

Since last year's Regular Report, Bulgaria has continued to make progress in the area of customs.

While Bulgaria has achieved a high degree of legislative alignment, some implementing provisions remain to be adopted. Bulgaria should continue the efforts undertaken so far, which have led to an improved, but not yet sufficient administrative and operational capacity of the National Customs Agency.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it made in the accession negotiations in this field.

Chapter 26: External relations

Progress made since the last Regular Report

As regards the **common commercial policy**, upon accession Bulgaria will be required to align its tariffs with those of the EC. Bulgaria's applied tariffs continued to average 11.6% (MFN – Most Favoured Nation) on all products in early 2003, 23.5% on agricultural products, 11.7% on fishery products and 8.7% on industrial products. By comparison, EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

Bulgaria has continued to align with the *acquis* on common commercial policy and to coordinate positions and policies within the World Trade Organisation with the EU, in particular with regard to the Doha Development Agenda. Further progress was made in the area of dual-use goods with the adoption of implementing legislation regulating the law on control of foreign trade with arms and dual-use goods and technologies in December 2002. Lists of arms and dual-use goods and technologies have been updated to take account of changes adopted by the EU and by the export control regimes. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Bulgaria is a member of all plurilateral export control regimes except

the Missile Technology Control Regime to which it has applied. The EU actively supports Bulgaria's application to the MTCR.

In the field of export credits, the level of alignment with the *acquis* is progressing and implementation of the export credit schemes has improved.

As regards **bilateral agreements with third countries**, a Free Trade Agreement with Latvia entered into force in April 2003, while the Free Trade Agreement with Albania entered into force in September 2003. Negotiations with Bosnia and Herzegovina are completed. An agreement with Serbia-Montenegro has been negotiated, but signature was delayed due to institutional difficulties on Serbia-Montenegro side. Negotiations on a Free Trade Agreement with Moldova are in preparation. Croatia acceded to CEFTA in March 2003, thus entering the free trade area of which Bulgaria is also a member. Regarding the bilateral investment treaty (BIT) between Bulgaria and the USA, Bulgaria has signed both the Memorandum of Understanding and the Additional Protocols to the BIT.

With regard to **development policy and humanitarian aid**, no new developments can be reported.

Overall assessment

With regard to the WTO, the efficient co-operation between Bulgaria and the EU should be sustained. Bulgaria should continue close co-ordination and co-operation in GATS negotiations with the Commission, mainly in order to facilitate the future convergence of its GATS commitments and MFN exemptions into the EU ones, to be finalised upon accession.

Negotiations on Bulgaria's accession to the WTO plurilateral agreement on Government Procurement are on-going.

Following the signature of the Memorandum of Understanding with the United States on the bilateral investment treaty (BIT) Bulgaria should ensure swift ratification of the Additional Protocols to the BIT, which were also signed with the US. This will be necessary in order for the adaptations to enter into force by the date of accession to the EU.

With regard to the *acquis* in the area of dual-use goods, full alignment with the *acquis*, in particular the general export authorisations, can only take place upon accession.

In relation to export credits, Bulgaria has to apply the OECD Export Credit Arrangement in order to comply fully with EC rules. As far as administrative capacity is concerned, the Bulgarian Export Insurance Agency is established and functioning. Its capacity for granting export insurance is however limited.

In addition to its bilateral free trade agreements with Israel, Estonia, Latvia and Lithuania, Bulgaria is a member of CEFTA. Bulgaria has implemented its commitments under the Stability Pact Memorandum of Understanding on trade liberalisation by concluding or negotiating free trade agreements, albeit with some delays.

The administrative infrastructure with respect to customs services is discussed in the chapter on customs union (*Chapter 25 – Customs union*). Administrative capacity in the

relevant departments of the Ministry of Economy, in charge of alignment with and future participation in the common commercial policy, is satisfactory.

Bulgaria needs to design a development and humanitarian aid policy and establish adequate administrative structures and procedures along EU lines.

Conclusion

Since the last Regular Report, Bulgaria has continued to align with the *acquis* on common commercial policy.

Bulgaria has achieved a reasonable level of alignment with the *acquis*. Bulgaria should take steps to renegotiate or denounce its bilateral treaties so as to bring them in full conformity with its EU membership obligations by its date of accession. Steps should also be taken to establish a development policy in line with EU standards.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. It is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 27: Common foreign and security policy

Progress since the last Regular Report

The regular **political dialogue** established by the Association Agreement with Bulgaria has continued to proceed smoothly. Bulgaria has continued to play a constructive role within the framework of the common foreign and security policy (CFSP). It participated in all relevant meetings including meetings at the level of Political Directors, European Correspondents and Working Groups. Bulgaria has demonstrated a strong interest in active contribution to the development of the European Security and Defence Policy (ESDP) including participation in regular EU + 15 format meetings (i.e. non-EU European NATO members and candidates for accession to the EU) on the subject.

As in previous years, Bulgaria continued to align its positions with **EU sanctions and restrictive measures, statements, declarations and démarches**. It has associated itself with common positions, joint actions and other CFSP instruments if invited to do so, including regarding negative measures.

Since the 2002 Regular Report, further legislation has been adopted including on measures to combat the financing of terrorism and with regard to effective participation in the CFSP in general. Bulgaria has confirmed its willingness to adopt the entire CFSP *acquis* upon accession and to comply with the commitments resulting from it.

In April 2003, Bulgaria designated a selected number of customs offices and border crossing points with exclusive competence for customs clearance of arms and dual-use goods. In relation to this, training of customs officers specialised in the control of exports and imports of arms and dual-use goods and technologies is ongoing (*with regard to dual-use goods see also Chapter 26 – External Relations*).

Following its adherence to the Rome Statute establishing the International Criminal Court (ICC), Bulgaria has aligned with the EU position of June 2003 regarding the question of

prosecution of US citizens by the ICC.

Bulgaria has further complied with international sanctions and restrictive measures imposed by the UN and the EU.

Bulgaria has reiterated its willingness to contribute both to the EU Rapid Intervention Force missions and to EU civilian instruments for crisis management. It participated in the meeting of the EU Ministers of Defence with third countries (May 2003) where it confirmed its national contribution to the EU Rapid Intervention Force missions, announced earlier in the framework of the Military Committee. It is taking part in the EU Police Mission (EUPM) in Bosnia and Herzegovina and in the EU military operation CONCORDIA in FYROM.

Bulgaria continued to be very active in supporting international peacekeeping missions including its sustained participation in a series of UN, KFOR, SFOR, ISAF and OSCE peacekeeping and observer operations. Bulgaria was a non-permanent member of the UN Security Council in the period 2002 and 2003 and it has been designated as chair of the OSCE in 2004.

Overall assessment

Bulgaria continued to participate in regional co-operation schemes, such as the trilateral co-operation established with Greece and Romania, Romania and Turkey, FYROM and Albania, and Greece and Turkey. It takes part in the Stability Pact and plays an active role in regional fora such as the South-East Europe Defence Ministerial Process (SEDM), the South-East Europe Cooperation Process (SEECOP) and the South-East Europe Security Cooperation Steering Group (SEEGROUP). In April 2003, Bulgaria participated in the Sixth Meeting of Heads of State and Government of the South-Eastern Co-operation Process and in May 2003 in the regional Conference "Border Management and Control". Relations with neighbours continue to be good.

After having subscribed to the content and principles contained in the EU Code of Conduct on Arms Export, Bulgaria has now started developing additional measures for effective export control of arms and dual-use goods.

The Bulgarian Ministry of Foreign Affairs (MFA) essentially has the administrative capacity to implement the provisions related to the CFSP. Administrative measures enabling a more precise definition of the posts of the Political Director and the European Correspondent should be completed.

The MFA is connected to and continues to take part in the Associated Correspondents' Network information system through which the EU communicates within the CFSP with the associated partners.

Conclusion

Since the last Regular Report, Bulgaria has continued to make steady progress in aligning with the CFSP *acquis*.

Bulgaria's overall level of alignment remains satisfactory.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations in this field.

Chapter 28: Financial control

Progress since the last Regular Report

As regards **public internal financial control** (PIFC), Parliament adopted the Law on the Amendments and Supplements to the PIFC Act in October 2002 and the Law entered into force in January 2003. The major amendments cover: wider audit scope over international funds performed by the PIFC Agency (PIFCA); definition of the functions of the ex ante financial controller in first level spending units; clear division of functions of managers, financial controllers and accountants; and the introduction of a four year mandate for the Director of PIFCA as well as the new position of a Deputy Director. The Council of Ministers Decree on the Amendments and Supplements to the Regulation on the Structure of the PIFCA was adopted in February 2003. Amendments to the Rules on the Implementation of the PIFC Law entered into force in May 2003. A number of other key documents were adopted including the Internal Audit Charter of PIFCA, the Code of Conduct for internal auditors and the Ordinance on the certification procedures of the accounts of EU funds spenders.

The PIFCA has drafted a strategy for the development of its administrative capacity including structural changes aimed at improving the co-ordination and information flows among the relevant Directorates. Institutional development of PIFCA is being pursued. Training of auditors on new forms and audit methods has been undertaken and various training seminars involving experts from Member States have been held. The Central Harmonisation Units for Financial Management and control systems in the Ministry of Finance and for Internal Audit in the PIFCA will have to be made fully operational.

As regards **external audit**, the amendment to the National Audit Office (NAO) Law was adopted by Parliament in June 2003. It gives the NAO a wide audit remit over state debt and covers procedures for the relationship with the Parliament. The implementing legislation adopted so far in this period consists of guidelines, agreements and rules incorporated in the Auditor's Manual together with the six guidelines on the implementation of audit standards. The administrative capacity of the NAO has been further upgraded. The organisational structure of the NAO was updated in February 2003. At the beginning of 2003 the NAO adopted a training strategy.

With regard to **control of EU pre-accession funding and structural action expenditure**, a programme of institution building is well under way aiming to improve the capacity of the National Fund and the various implementing agencies to manage pre-accession funding, in preparation for the extended decentralisation of Phare and ISPA implementation (EDIS) scheduled for 2004. The establishment of a management and control system, in particular the establishment of a Financial Control Unit in the Ministry of Finance and of project teams at the level of implementing agencies, is well under way, although frequent changes of key staff in some implementing agencies have caused problems. Further steps in terms of implementation are needed to meet the requirement for internal financial control and internal audit. Bulgaria's SAPARD Agency has operated reasonably well in its first two years. The National Audit Office Act establishes

an audit trail, already in place within the SAPARD Agency as regards management of the SAPARD programme, on EC funds and the NAO has a special unit to audit EC funds. Bulgaria's strategy for transition to the Structural Funds, including developing its administrative capacity in this regard, is starting to be implemented (*see Chapter 21 - Regional policy and co-ordination of structural instruments*).

In the field of the **protection of EC financial interests**, a Council of Ministers Decree in February 2003 established the "Council on Coordination of the Fight against Irregularities concerning EU Financial Interests". The Council provides guidelines, monitors and ensures co-ordination of the activities of the Bulgarian authorities with a view to preventing and combating irregularities. The Secretariat of the Council is provided by a specific service within the Ministry of the Interior, which acts as the Bulgarian Anti-Fraud Co-ordinating Service (AFCOS). Efforts should now be focused on putting in place the necessary framework and implementing legislation, with a view to defining the AFCOS' competencies and relations with other relevant institutions and bodies, including OLAF. In addition, the administrative and operational capacity of Bulgaria's anti-fraud structure, including the AFCOS, should be further strengthened and demonstrated by concrete actions.

Overall assessment

The amended PIFC Act constitutes an important further step towards an appropriate legal basis for adequate public internal financial control, but further elaboration and improvement of the PIFC legislation of Bulgaria in compliance with the *acquis* and best international practice remains a priority task of the PIFCA. There is a need for further development and implementation of the new legislative PIFC framework in compliance with international audit standards and EU requirements. The PIFC Agency auditors need to improve their knowledge and experience in systems-based and performance audit and other modern audit techniques. The IT system of the PIFCA also needs to be further developed. The administrative capacity of the Regional Offices for adequate and timely monitoring and control of EU funds needs to be upgraded.

The National Audit Office has given considerable effort to developing the external auditor qualification as well as to improving management capacity in compliance with the EU criteria. Systematic training is carried out to apply in practice the experience gained through seminars and workshops. Pilot audit projects enhance experience in the implementation of financial and performance audits. The role of the NAO in the fight against corruption and fraud in the public administration bodies has been further strengthened, based on a prevention approach, transparency of the audit work and publication of the audit results.

These activities will need to be supported by further substantial investment in developing administrative capacity and training staff in the PIFC Agency, the NAO and line ministries.

Work has now started on arrangements for the extended decentralisation of Phare and ISPA implementation (EDIS). Bulgaria needs to continue to strengthen the capacity of the National Fund, the CFCU and other implementing agencies dealing with pre-accession funds in preparation for EDIS, as well as the capacity of the PIFC Agency and NAO to conduct effective audits in the EDIS context. EDIS will itself be an essential preparation for participation in the Structural Funds after accession. In this respect,

frequent changes of staff in the implementing agencies must be avoided. The Ministry of Finance should continue to play a pro-active role in ensuring progress in this area.

In May 2001 the Commission adopted a Decision provisionally conferring management authority for three SAPARD measures, on a fully decentralised basis, to the SAPARD Agency, and for seven additional measures in August 2003. The Commission's guidelines concerning certification of Bulgaria's accounting procedures have been respected and judged satisfactory.

As regards the protection of EC financial interests, Bulgaria should now ensure that, following the establishment of the anti-fraud co-ordinating service AFCOS, the structure of its operational remit will be further specified and the AFCOS' operational capacity to co-operate effectively with other relevant institutions and bodies, including OLAF, will be demonstrated in practice.

Conclusion

Since the last Regular Report, Bulgaria has made significant progress towards developing the entire legal basis for financial control and the necessary administrative capacity.

While Bulgaria has achieved a reasonable degree of alignment with the *acquis*, it still needs to finalise the legislative framework, focusing on its implementation. In addition, it needs to strengthen administrative structures, especially for the protection of EC financial interests.

Negotiations on this chapter have been provisionally closed. Bulgaria has not requested any transitional arrangements in this area. Bulgaria is generally meeting the commitments it has made in the accession negotiations on this chapter.

Chapter 29: Financial and budgetary provisions

Progress since the last Regular Report

Some new relevant legislative measures have been introduced concerning **national budget formulation and execution**. The 2003 Annual Budget Law was adopted by Parliament in December 2002. A Decision on the 2004 budgetary procedure was adopted by the Council of Ministers in accordance with the rules of the Organic Budget Law in February 2003. The 2004 budget procedure provides for an improvement of the budgetary process and the establishment of a stable medium term fiscal framework. These include earlier and more extensive discussion in the Council of Ministers and moves towards multi-annual budgeting. Further progress has been made on the implementation of the financial management information system.

Steady progress has been made in enhancing administrative capacity especially in the Ministry of Finance including splitting the Budget and State Treasury Directorate into two with a significant increase in staff.

As regards the underlying policy areas affecting the **application of the own resources system**, the National Revenue Agency (NRA) Law came into force from December 2002. It sets out the powers and responsibilities of NRA concerning collection, accounting and control of revenue from taxes and social security contributions. Further compliance of

Bulgarian tax legislation with the *acquis* has been achieved with the Law on Amendment of the VAT Act (in force as of January 2003). Progress has also been made in improving administrative capacity in this area. The Bulgarian Tax Administration is undergoing reform and modernisation and the National Revenue Agency has been established. The capacity of the customs administration and National Statistics Institute has also been strengthened.

Overall assessment

Budgetary rules are broadly satisfactory, the Treasury is functioning well and Bulgaria has made efforts to bring the budgetary principles and rules into line with those standards substantially applicable in the Community. However, further efforts are needed to ensure that the revised arrangements function smoothly. Public expenditure management and control continues steadily to improve. Further across-the-board strengthening in these areas is still needed, and progress is needed to bring into force the public debt management Act. Good progress has been made on developing and implementing a strategy for restructuring and modernising the Ministry of Finance, including upgrading administrative capacity in a number of areas. It should also be noted that the successful implementation of the budgetary reform is subject to the implementation of other laws and decrees which ensure transparency in the legal framework of the budget sector.

In the immediate future, the priorities include further development of the Treasury Single Account, the Financial Management Information System and the System for Electronic Budgetary Payments, continued strengthening of the drafting procedure for the annual state budget and further steps to bring national accounts statistics more closely into compliance with the ESA95 standard and enhance their exhaustiveness. In the medium term, a more detailed functional budget classification should be developed, budget legislation should be further aligned with EC and international standards and the Ministry of Finance should further implement its strategy for reform and restructuring, especially to strengthen its strategic capacity to evaluate the composition and quality of public expenditure.

Bulgaria should further 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 EU can be assured. 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 further improved to allow calculations to be made in a harmonised and controllable way. Adequate administrative capacity duly to collect and transfer in a timely manner all own resources to the Community budget, including developing an adequately staffed and equipped co-ordinating body in the area of own resources, will need to be established prior to accession, as will the ability accurately and regularly to report to the Commission on the situation with regard to each of the types of own resources.

Further action is needed to develop the administrative capacity to implement, enforce and control the *acquis* with regard to customs duties, VAT and GNI calculations following the ESA95 methodology. (*see also Chapter 10-Taxation, Chapter 12-Statistics and Chapter 25-CustomsUnion*)

In addition to the need for central co-ordination of the proper collection, monitoring, payment and control of funds payable to the EC budget, administrative capacity should

continue to be strengthened in the context of the relevant policy areas described elsewhere in this report, such as agriculture, customs, taxation, statistics and financial control.

Conclusion

Since the last Regular Report, Bulgaria has continued to make progress in some of the areas covered by this chapter.

Budgetary rules are in essence satisfactory and the Treasury is functioning well, although budgetary principles and rules are not yet fully in line with those standards substantially applicable in the Community. More progress is needed on developing capacity in the area of the own resources system.

Negotiations on this chapter continue.

3.2 Translation of the *acquis* into Bulgarian

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 texts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the Council. The legal revisers of the Commission and the Council vet the submitted texts; they meet regularly and liaise with representatives of the centralised Translation Co-ordination Units in each country.

The Bulgarian Translation and Revision Centre (created in May 2001) is an independent body under the responsibility of the Minister of State Administration with its own budget. It carries out linguistic and legal revisions of translations done by 30 external free-lance translators, who are selected through competitive procedures. Priorities for translation of legislation are set by the European integration directorate in the Council of Ministers, based on needs identified by heads of the working groups on the *acquis* chapters. 2005 is the target set for translation of all the *acquis* into Bulgarian.

As reported last year, the basic treaties have been translated. During the reference period 17 000 additional pages had been translated, thus reaching a total of around 45 000 pages translated from the Official Journal. Efforts in this area need to be sustained if targets are to be met. Due attention must also be paid to the training of conference interpreters.

3.3 General evaluation

Over the past year, Bulgaria has continued to make good progress in most areas of the *acquis* and is on track to complete the required legislative transposition before the planned date of accession if the current pace of progress is maintained.

Regarding the internal market, Bulgaria made further progress in most areas. In *free movement of goods*, progress continued with the adoption of sector-specific legislation in the area covered by New Approach directives. In the sectors covered by Old Approach directives, progress was recorded notably as regards data protection for pharmaceuticals. While progress has been recorded in the area of food safety, further efforts are needed both on transposition and administrative capacity. In the non-harmonised area, Bulgaria should continue screening for measures that may be incompatible with the principle of free movement of goods. As to public procurement, further efforts are necessary to align with the *acquis* and to build up the necessary administrative capacity.

As regards *free movement of persons*, progress was limited and considerable further work is needed concerning mutual recognition of qualifications (especially as regards curricula and training requirements) and the establishment of the necessary administrative bodies for the future co-ordination of social security systems. Concerning the right of establishment and *freedom to provide services*, Bulgaria made further progress as regards the non-discriminatory regime of national treatment for foreigners performing economic activities in Bulgaria. The establishment of the Financial Supervision Commission is an important step towards strengthening supervision. Further efforts are required as regards data protection and information-society services. In the area of *free movement of capital*, Bulgaria has made good progress in adopting new legislation on capital movements and payments, and anti-money laundering.

Company law was further aligned with the *acquis*. The focus should now be put on the enforcement of legislation on the protection of intellectual and industrial property rights, notably through better co-ordination between competent authorities. Further progress was recorded in the field of *competition policy*, where the legal framework for both anti-trust rules and state aid was consolidated. Further efforts are required to enhance the state aid enforcement record. Bulgaria also needs to restructure its steel sector in line with the relevant provisions of the Europe Agreement.

Regarding *agriculture*, Bulgaria has made considerable progress in adopting legislation in particular in the veterinary and phytosanitary sector. Administrative structures have been further consolidated and strengthened although further improvements are needed. Substantial work is still ahead in order for Bulgaria to meet EU veterinary and phytosanitary control and hygiene standards. Bulgaria has achieved a reasonable degree of legislative alignment in field of *fisheries*. However, further progress is needed with regard to technical capacity of inspection and control systems as well as with regard to compliance with EU hygiene and health requirements.

Bulgaria has continued to make progress in aligning *transport* legislation with the *acquis* and has made efforts to improve its maritime safety record. These efforts should continue. The administrative structures in the road, railway and maritime areas need to be strengthened. Attention needs to be paid to ensuring the financing for important investments necessary in this sector, notably for upgrading the road network.

As regards *taxation*, positive developments were reported in the areas of VAT and excise duties, where new legislation was adopted. However, significant further efforts are needed to strengthen the tax administration. Attention should be paid to improving tax collection, enhancing internal control, ensuring that the computerised tax information system is fully operational, and completing preparations for interconnectivity with EU IT systems.

On *social policy and employment*, some progress has been made, particularly in the area of anti-discrimination policy. However, further work remains on legal transposition, particularly in the areas of labour law, health and safety at work and public health. Administrative capacity needs to be strengthened.

Reforms in the *energy* sector progressed, although important legislation preparing for the internal market and setting up a framework for energy efficiency has not yet been adopted. The preparation for privatisation of the distribution companies has advanced. Bulgaria must continue to respect its commitments on nuclear safety, notably as regards closure commitments for Kozloduy nuclear power plant and to ensure a high level of nuclear safety in its installations.

Bulgaria has significantly progressed in aligning with the *telecommunications acquis* through the adoption of a new telecommunications law. Efforts should now focus on implementation and further enhancing the capacity of the regulator.

Concerning *regional policy and co-ordination of structural instruments*, Bulgaria has made some progress with regard to preparations for the implementation of Structural and Cohesion Funds, notably with institutional structures and programming. Considerable efforts are still needed to develop, consolidate or complete institutional structures and to bring administrative capacity (including staffing and training) and procedures up to the level required. Priority should also be given to the introduction of efficient and fully transparent procurement and financial management and control systems as well as to monitoring and evaluation systems and to the strengthening of inter-ministerial co-ordination.

Bulgaria has reached a good level of alignment of the *environmental acquis* and has developed directive-specific implementation plans and financing strategies. The continuous efforts to develop administrative capacities, notably at local level, and further elaborate mechanisms to monitor effective implementation should be maintained. Implementation remains a major challenge, as is the need for increased administrative capacity and the cost of alignment.

Some progress has been made in further aligning Bulgaria's legislation with the *acquis* in the area of *consumer and health protection*. Bulgaria needs to finalise its legislative framework, particularly in the area of non-safety related measures. Further efforts are needed to put in place an efficient market surveillance mechanism.

Further good progress could be noted in the area of *justice and home affairs*. The new legislation adopted in the areas of data protection, visa, migration, asylum and money laundering almost completed alignment with the *acquis*. Substantial further efforts are needed to further strengthen the judicial system, through a continuation of the reforms. Particular attention should be given to combating drugs and illegal migration.

For *customs*, a good degree of legal alignment has been reached and progress was noted concerning administrative and operational capacity and concerning computerisation. These efforts should continue. Measures were taken in the framework of the anti-corruption strategy.

Significant further progress has been made in strengthening *financial control* in Bulgaria, developing further the entire legal basis and the necessary administrative capacity. Further work should now focus on implementation of legislation and further strengthening of the required institutional structures, *inter alia* for the protection of the EU financial interests.

Steady progress is being made in the other chapters of the *acquis*.

Bulgaria needs to continue to make sustained efforts to develop sufficient administrative and judicial capacity to implement and enforce the *acquis*. As well as continuing horizontal reform of the public administration, it needs to focus in particular on developing the capacity to be part of the internal market and to apply the *acquis* in areas such as agriculture, environment and regional policy. Continued efforts are required to establish the necessary administrative capacity to ensure the sound and efficient management of EU funds.

In the accession negotiations, 26 chapters have been provisionally closed. The commitments made in the negotiations are with a view to accession in 2007. They are generally being met, although delays have been noted in certain specific areas.

C. CONCLUSION

Bulgaria continues to fulfil the Copenhagen political criteria.

Progress was made with the adoption of a programme and an action plan for the implementation of the Strategy for Modernisation of the State Administration, which aim at consolidating the legal framework in this area. Sustained efforts will be necessary to further implement the public administration reform and to fulfil Bulgaria's aim to have a qualified and efficient civil service in place in the medium term, to ensure the effective application and enforcement of the *acquis* when Bulgaria joins the Union.

The overall reform process for the judiciary continued in line with the 2002 Action Plan. In particular, the amendments to the Constitution regarding the status of magistrates, represent an important step forward. Other legislative measures aim at reducing the duration of court proceedings and strengthening judicial control of decisions of the executive. However, further efforts are necessary to re-organise the investigation service as part of the executive in line with best practice in Member States. Bulgaria also needs to ensure that the judicial budget is adequate for the smooth functioning of the judicial system.

Corruption remains a problem, and Bulgaria should maintain concerted efforts to implement measures in this respect. The fight against corruption remained high on the political agenda and further measures in this context were adopted.

Bulgaria continues to respect human rights and fundamental freedoms.

The legal framework for asylum and child protection improved considerably. However, the living conditions of children placed in institutions changed little during the past year. As regards the mentally disabled, the required legal framework is still missing, notably to ban arbitrary detention. Despite some efforts to address the situation, the living conditions in institutions for mentally disabled are difficult and opportunities for rehabilitation and therapy are scarce. Further efforts are necessary to address the situation as regards degrading treatment by the police and trafficking in human beings. In the area of social and economic rights, progress can be reported notably as regards equal opportunities and anti-discrimination.

The new Action Plan for the implementation of the "Framework Programme for Equal Integration of Roma into Bulgarian Society" represents a positive step, as specific budgetary support is provided for measures in the areas of anti-discrimination, education, culture, housing, employment and social protection. Determined and sustained efforts are needed to fight discriminatory attitudes and behaviour and to address the widespread social disadvantage affecting the Roma community.

Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it continues implementing its reform programme to remove remaining difficulties.

The Bulgarian economy has achieved a high degree of macroeconomic stability due to a good policy-mix brought about by the currency board arrangement, a tight fiscal stance and wage moderation. Economic stability and good progress in structural reforms allow market mechanisms to provide a more efficient allocation of resources which, in the

absence of the nominal exchange rate as an instrument for adjustment, is setting the basis for a process of sustained growth. This holds in particular for the increasing role of the private sector through privatisation and the reduction of state aid, the positive development of the banking sector and some improvements in the regulatory environment.

However, the flexibility of product and labour markets needs to be further enhanced. In particular, the efficiency of the administrative and judicial system has to be improved, providing economic agents a more stable and predictable framework and better allow to enforce their property rights. The privatisation programme needs to be completed. Regulations and administrative procedures affecting enterprises must be further streamlined, also to provide more viable conditions for small and medium-sized enterprises. The restructuring and liberalisation of the network industries needs to further advance in order to reduce subsidies, to enhance quality and allow for a reduction of the prices of their services. The ongoing reduction in unemployment should be further supported by addressing rigidities in the labour market and improving the education system. Implementing these reform measures should contribute to higher levels of private and public investment, thereby contributing to sustained growth and competitiveness within the Union.

Over the past year, Bulgaria has continued to make good progress in most areas of the *acquis* and is on track to complete the required legislative transposition before the planned date of accession if the current pace of progress is maintained.

Regarding the internal market, Bulgaria made further progress in most areas. In *free movement of goods*, progress continued with the adoption of sector specific legislation in the area covered by new approach directives. In the sectors covered by old approach directives, progress was recorded notably as regards data protection for pharmaceuticals. While progress is recorded in the area of food safety, further efforts are needed both on transposition and administrative capacity. In the non-harmonised area, Bulgaria should continue the screening for measures that may be incompatible with the principle of free movement of goods. As to public procurement, further efforts are necessary to align with the *acquis* and to build up the necessary administrative capacity.

As regards *free movement of persons*, progress was limited and considerable further work is needed concerning mutual recognition of qualifications (especially as regards curricula and training requirements) and the establishment of the necessary administrative bodies for the future co-ordination of social security systems. Concerning the right of establishment and *freedom to provide services*, Bulgaria made further progress as regards the non-discriminatory regime of national treatment for foreigners performing economic activities in Bulgaria. The establishment of the Financial Supervision Commission is an important step towards strengthening supervision. Further efforts are required as regards data protection and information-society services. In the area of *free movement of capital*, Bulgaria has made good progress in adopting new legislation on capital movements and payments, and anti-money laundering.

Company law was further aligned with the *acquis*. The focus should now be put on the enforcement of legislation on the protection of intellectual and industrial property rights, notably through better co-ordination between competent authorities. Further progress was recorded in the field of *competition policy*, where the legal framework for both antitrust and state aid was consolidated. Further efforts are required to enhance the state aid

enforcement record. Bulgaria also needs to restructure its steel sector in line with the relevant provisions of the Europe Agreement.

Regarding *agriculture*, Bulgaria has made considerable progress in adopting legislation in particular in the veterinary and phytosanitary sector. Administrative structures have been further consolidated and strengthened although further improvements are needed. Substantial work is still ahead in order for Bulgaria to meet EU veterinary and phytosanitary control and hygiene standards. Bulgaria has achieved a reasonable degree of legislative alignment in field of *fisheries*. However, further progress is needed with regard to technical capacity of inspection and control systems as well as with regard to compliance with EU hygiene and health requirements.

Bulgaria has continued to make progress in aligning *transport* legislation with the *acquis* and has made efforts to improve its maritime safety record. These efforts should continue. The administrative structures in the road, railway and maritime areas need to be strengthened. Attention needs to be paid to ensuring the financing for important investments necessary in this sector, notably for upgrading the road network.

As regards *taxation*, positive developments could be reported in the areas of VAT and excise duties, where new legislation was adopted. However, significant further efforts are needed to strengthen the tax administration. Attention should be paid to improve tax collection, enhance internal control, ensure that the computerised tax information system is fully operational, and that interconnectivity with EU IT systems is prepared.

On *social policy and employment*, some progress has been made, particularly in the area of anti-discrimination policy. However, further work remains on legal transposition, particularly in the areas of labour law, health and safety at work and public health. The administrative capacity needs to be strengthened.

Reforms in the *energy* sector progressed, although important legislation preparing for the internal market and setting up a framework for energy efficiency have not yet been adopted. The preparation for privatisation of the distribution companies has advanced. Bulgaria must continue to respect its commitments on nuclear safety, notably as regards closure commitments for Kozloduy nuclear power plant and to ensure a high level of nuclear safety in its installations.

Bulgaria has significantly progressed in aligning with the *telecommunications acquis* through the adoption of a new telecommunications law. Efforts should now focus on implementation and further enhancing the capacity of the regulator.

Concerning *regional policy and co-ordination of structural instruments*, Bulgaria has made some progress with regard to preparations for the implementation of Structural and Cohesion Funds, notably with institutional structures and programming. Considerable efforts are still needed to develop, consolidate or complete institutional structures and to bring administrative capacity (including staffing and training) and procedures up to the level required. Priority should also be given to the introduction of efficient and fully transparent procurement and financial management and control systems as well as to monitoring and evaluation system and to the strengthening of inter-ministerial co-ordination.

Bulgaria has reached a good level of alignment of the *environmental acquis* and has developed directive-specific implementation plans and financing strategies. The

continuous efforts to develop administrative capacities, notably at local level, and further elaborate mechanisms to monitor effective implementation should be maintained. Implementation remains a major challenge, as is the need for increased administrative capacity and the cost of alignment.

Some progress has been made in further aligning Bulgaria's legislation with the *acquis* in the area of *consumer and health protection*. Bulgaria needs to finalise its legislative framework, particularly in the area of non-safety related measures. Further efforts are needed to put in place an efficient market surveillance mechanism.

Further good progress could be noted in the area of *justice and home affairs*. The new legislation adopted in the areas of data protection, visa, migration, asylum and money laundering almost completed alignment with the *acquis*. Substantial further efforts are needed to further strengthen the judicial system, through a continuation of the reforms. Particular attention should be given to combating drugs and illegal migration.

For *customs*, a good degree of legal alignment has been reached and progress was noted concerning the administrative and operational capacity and concerning computerisation. These efforts should continue. Measures were taken in the framework of the anti-corruption strategy.

Significant further progress has been made in strengthening *financial control* in Bulgaria, developing further the entire legal basis and the necessary administrative capacity. Further work should now focus on implementation of legislation and further strengthening of the required institutional structures, including for the protection of the EU financial interests.

Steady progress is being made in the other chapters of the *acquis*.

Bulgaria needs to continue to make sustained efforts to develop sufficient administrative and judicial capacity to implement and enforce the *acquis*. As well as continuing horizontal reform of the public administration, it needs to focus in particular on developing the capacity to be part of the internal market and to apply the *acquis* in areas such as agriculture, environment and regional policy. Continued efforts are required to establish the necessary administrative capacity to ensure the sound and efficient management of EU funds.

D. ACCESSION PARTNERSHIP: GLOBAL ASSESSMENT

Bulgaria's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. This section assesses briefly the overall extent to which the priorities of the Accession Partnership have been met.

A revised Accession Partnership for Bulgaria was adopted in May 2003.¹¹ The purpose of the Accession Partnership is to assist the Bulgarian authorities in their efforts to meet the accession criteria. It covers in detail the priorities for accession preparations, in particular implementing the *acquis*, and forms the basis for programming pre-accession assistance from Community funds such as the Phare programme.

This Accession Partnership followed two earlier documents, an action plan and a roadmap¹². The purpose of the action plan adopted in 2002 was to identify jointly the next steps required for Bulgaria to achieve an adequate level of administrative and judicial capacity by the time of accession; it served also as an instrument to target EU assistance in these areas. As announced in the Commission's 2002 Strategy Paper, the action plan was supplemented by a roadmap, which provides a less detailed but longer term perspective. The roadmap was developed in close consultation with Bulgaria and adopted in November 2002. It indicates the main steps that need to be taken to be ready for membership covering the whole period up to accession, with particular reference to the administrative and judicial capacity necessary to implement the *acquis*, and to economic reform. For the *acquis* chapters, the roadmap provides benchmarks against which Bulgaria's progress can be monitored. These issues were further refined in the revised Accession Partnership.

Bulgaria has begun to address the priorities defined by the revised Accession Partnership. Overall, progress has been made, but substantial efforts are still necessary to complete the tasks foreseen for the period 2003-2004. For a number of these priorities, the government will benefit from Phare assistance, as projects directly related to these priorities have been included in the 2003 Phare programme (see more details in part A.2 of this report).

With regard to the **political criteria**, Bulgaria has continued reforms in key areas such as public administration and the judiciary with the aim of reinforcing *democracy and the rule of law*. Attention should be focused on the implementation of the relevant strategies and corresponding action plans and the enforcement of legislation. While further progress can be reported in meeting the priorities relating to respect for *human rights and protection of minorities*, efforts are still necessary.

Bulgaria is steadily moving forward in the implementation of the priorities defined by the revised Accession Partnership with regard to the **economic criteria**. Good progress was made in structural reforms including the reduction of state aid and the increasing role of the private sector through privatisation, the positive development of the banking sector

¹¹ Council Decision 2003/396/EC of 19 May 2003 on the principles, priorities, intermediate objectives and conditions contained in the Accession Partnership with Bulgaria (OJ L 145, 12.6.2003, p. 1).

¹² Communication from the Commission to the Council and the European Parliament - Roadmaps for Bulgaria and Romania, 13 November 2002 (COM/2002/624 final).

and some improvements in the regulatory environment. However, there are still a number of areas in which further efforts are needed, including notably streamlining the regulatory procedures for the enterprise sector, restructuring and liberalising the network industries and improving the efficiency and quality of the education system.

Bulgaria continues to make good progress with the adoption and implementation of the *acquis*. In the internal market area the priorities of the Accession Partnership have been met to a large extent, except for state aid. In all the other areas, implementation is ongoing, but further efforts will be necessary to address all the Accession Partnership priorities.

Progress on the issues identified as priorities in the Accession Partnership is discussed in more detail in other parts of this report, notably in part B.3 of this report. The revised Accession Partnership follows the same structure as the Regular Report.

The revised Accession Partnership continues to be a main tool guiding Bulgaria's preparations for accession to the EU for the period 2003-2004. Implementation of the Accession Partnership needs to continue. It should be given the necessary political attention and should help Bulgaria to set its legislative and institution-building agenda.

ANNEXES

ANNEX I

HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES

(as at end of October 2003)

<i>Adherence to following conventions and protocols</i>	Bulgaria	Romania	Turkey
ECHR (European Convention on Human Rights)	✓	✓	✓
Protocol 1 (right of property)	✓	✓	✓
Protocol 4 (freedom movement et al.)	✓	✓	
Protocol 6 (death penalty)	✓	✓	✓ ¹
Protocol 7 (ne bis in idem)	✓	✓	
European Convention for the Prevention of Torture	✓	✓	✓
European Social Charter	n/a	n/a	✓
Revised European Social Charter	✓	✓	
Framework Convention for National Minorities	✓	✓	
ICCPR (International Covenant on Civil and Political Rights)	✓	✓	✓
Optional Protocol to the ICCPR (right of individual communication)	✓	✓	
Second Optional Protocol to ICCPR (death penalty)	✓	✓	
ICESCR (International Covenant on Economic, Social and Cultural rights)	✓	✓	✓
CAT (Convention against Torture)	✓	✓	✓
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	✓	✓	✓
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	✓	✓	✓
Optional Protocol to the CEDAW			✓
CRC (Convention on the Rights of the Child)	✓	✓	✓

¹ Not yet notified to the Council of Europe.

ANNEX II

STATISTICAL ANNEX

	1998	1999	2000	2001	2002
Basic data	in 1000				
Population (average)	8,257	8,211	8,170	7,913	7,869p
	in km²				
Total area	110,910	110,971	111,002	111,002	111,002p

National accounts	1000 Mio Lev				
Gross domestic product at current prices a)	22.4	23.8	26.8	29.7	32.3
	1000 Mio ECU/euro				
Gross domestic product at current prices	11.4	12.2	13.7	15.2	16.6
	ECU/Euro				
Gross domestic product per capita at current prices	1,400	1,500	1,700	1,900	2,100
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	3.9	2.3	5.4	4.1	4.8
Employment growth	-0.2	-2.1	-3.5	-0.4	0.8
Labour productivity growth	4.0	4.5	9.2	4.5	3.9
Unit labour cost growth	18.4	-2.2	-5.4	1.7	:
	in Purchasing Power Standards				
Gross domestic product per capita at current prices	4.600	6,000	5,800	5,800	5,900
	in % of EU-15 average				
GDP per capita b) at current prices in PPS	28	28	26	25	25
Labour productivity (GDP per person employed in PPS)	31	32	31	30	30
Structure of production	% of Gross Value Added c)				
- Agriculture	18.8	16.3	13.9	13.4	12.5
- Industry (excluding construction)	25.7	23.1	24.5	24.1	23.4
- Construction	4.8	5.0	4.6	4.6	4.4
- Services	50.7	55.5	56.9	57.9	59.7
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	82.9	87.9	87.1	86.9	87.3
- household and NPISH	67.6	71.3	69.2	69.5	69.4
- general government	14.5	15.2	16.8	17.5	17.3
- Gross fixed capital formation	13.0	15.1	15.7	18.2	18.1
- Stock variation d)	3.9	2.8	2.6	2.4	1.6
- Exports of goods and services	47.1	44.6	55.7	55.6	53.1
- Imports of goods and services	46.8	50.3	61.1	63.2	59.7

Inflation rate	% change over the previous year				
Consumer price index	18.7	2.6	10.3	7.4	5.8

	1998	1999	2000	2001	2002
Balance of payments	in Mio ECU/euro				
-Current account	-55	-642	-760	-918	-777p f)
-Trade balance	-340	-1,014	-1,273	-1,771	:
<i>Exports of goods</i>	3,741	3,759	5,224	5,729	:
<i>Imports of goods</i>	4,080	4,773	6,496	7,500	:
-Net services	332	296	547	632	:
-Net income	-253	-205	-348	-343	:
-Net current transfers	205	281	314	564	:
- of which: government transfers	53	64	59	157	:
- FDI (net) inflows	479	723	1,086	397	647p f)

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	1.7	0.4	-0.5	0.2	-0.6p
General government debt	79.6	79.3	73.6	66.4	53.0p

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	68.4	74.9	73.7	67.0	:
	as % of exports				
Gross foreign debt of the whole economy	145.3	168.0	132.3	120.5	:
Monetary aggregates	1000 Mio ECU/euro				
- M1	1.5	1.7	2.0	2.5	2.8
- M2	3.3	3.7	4.9	6.2	6.9
- M3	3.5	3.9	5.1	6.5	7.2
Total credit	2.9	3.3	3.6	4.2	5.3
Average short-term interest rates	% per annum				
- Day-to-day money rate	2.4	2.6	2.9	3.6	2.4
- Lending rate	14.8	14.6	13.6	13.2	12.6
- Deposit rate	3.0	3.3	3.2	3.2	2.9
ECU/EUR exchange rates	(1ECU/euro=..New Lev)				
- Average of period	1.969	1.956	1.948	1.948	1.949
- End of period	1.956	1.956	1.954	1.946	1.955
	1995=100				
- Effective exchange rate index	5.5	6.0	6.0	6.3	6.6
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	2,619	3,234	3,756	4,120	4,565
-Reserve assets (excluding gold)	2,361	2,943	3,455	3,798	4,159

External trade	Mio ECU/euro				
Trade balance	-328	-1,007	-1,280	-1,778	-1,692
Exports	3,747	3,734	5,253	5,714	6,063
Imports	4,075	4,741	6,533	7,492	7,755
	previous year=100				
Terms of trade	:	:	:	99.1	98.9
	as % of total				
Exports with EU-15	50.4	52.1	51.1	54.7	55.6
Imports with EU-15	45.2	48.4	44.0	49.3	50.2

	1998	1999	2000	2001	2002
Demography	per 1000 of population				
Natural growth rate	-6.4	-4.8	-5,1	-5,6	-5,8
Net migration rate (including corrections)	:	:	:	-2,7e)	:
	per 1000 live-births				
Infant mortality rate	14.4	14.6	13,3	14,4	13,3
Life expectancy :	at birth				
Males:	67.6	:	68,15	68,53	68.54
Females:	74.64	:	75,34	75,23	75.37

Labour market (Labour Force Survey)	% of population				
Economic activity rate (15-64)	63.3	61.6	61.6	63.3	62.5
Employment rate (15-64), total	:	:	50.4	49.6	50.6
Employment rate (15-64), males	:	:	54.7	52.6	53.7
Employment rate (15-64), females	:	:	46.3	46.8	47.5
	as % of the total population of the same age group				
Employment rate of older workers (55-64)	:	:	20.8	23.9	27.0
Average employment by NACE branches	in % of total				
- Agriculture and forestry	26.2	25.8	13.2	9.7	10.7
- Industry (excluding construction)	26.5	24.6	27.0	27.8	27.5
- Construction	4.1	4.3	5.9	4.9	5.2
- Services	43.2	45.4	54.0	57.6	56.6
	% of labour force				
Unemployment rate, total	:	:	16.4	19.2	18.1
Unemployment rate, males	:	:	16.7	20.0	18.7
Unemployment rate, females	:	:	16.2	18.4	17.4
Unemployment rate of persons < 25 years	28.4	31.4	33.3	39.3	35.6
Long-term unemployment rate	:	:	9.6	12.6	11.9

Social cohesion	ratio of top quintile to lowest quintile				
Inequality of income distribution	3.8	3.6	3.6	3.9	:
	% of population aged 18-24				
Early school-leavers	:	:	:	20.3	21.0
	% of population aged 0-65				
Population in jobless households (persons aged 0-65)	:	:	17.1	19.1	18.3

Standard of living	per 1000 inhabitants				
Number of cars	219.1	232.4	243.9	263.6	276
Main telephone lines	335.1	345.9	353.6	370.3	370.4
Number of subscriptions to cellular mobile services	15.9	40.1	90.6	204.7	318.6

Infrastructure	in km per 1000 km²				
Railway network	38.7	38.7	38.9	38.9	38.9
	km				
Length of motorways	319	324	324	328	328

	1998	1999	2000	2001	2002
Industry and agriculture	previous year=100				
Industrial production volume indices	91.5	92.1	108.2	101.6	100.6p
Gross agricultural production volume indices	98.7	102.7	90.6	99.5	104.1p

Innovation and research	as % of GDP				
Spending on Human Resources (public expenditure on education)	3.23	3.66	4.41	3.66	:
	as % of GDP				
Gross domestic expenditure on Research & Development	0.57	0.56	0.52	:	:
	per 1000 inhabitants				
Level of Internet access - households	:	:	:	:	:

Environment	tonnes CO2 equivalent per capita				
Total greenhouse gases emissions	51.4	49.4	49.4	:	:
	kg of oil equivalent per 1000 euro of GDP				
Energy intensity of the economy	2,229.0	1,986.2	1,917.9	:	:
	as % of total electricity consumption				
Share of renewable energy	8.1	7.7	7.4	:	:
	as % of total freight transport				
Modal split of freight transport	77.0	77.8	52.3	60.5	:

p=provisional figures

E=estimated data

a) Note that Bulgaria has rebased its currency in July 99, dividing it by 1000. The currency is now called "New Bulgarian Lev".

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

c) Including FISIM.

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

e) The Net migration rate for 2001 refers to the period 1993-2001 between the two last censuses.

f) Source: Website of the National Bank

Methodological notes

Inflation rate

For details please refer to the following link to the Eurostat website:
http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm

Finance

Public finance: The general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.

External trade

Imports and exports (current prices). The data is based upon the special trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis. *Imports and exports with EU-15.* Data declared by Bulgaria.

Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2nd quarter of the respective year. The results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

Social cohesion

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

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).

Innovation and research

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

Environment

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

Sources:

Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture:
National sources. Other indicators: Eurostat.