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ON

BULGARIA'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*.” “In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidates States' ability to meet the economic criteria and fulfil the obligations deriving from accession.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on Bulgaria follows the same structure as the Opinion. It:

- describes the relations between Bulgaria and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Bulgaria's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Bulgaria's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards following the request from the Cologne European Council that this be examined thoroughly in the regular reports.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which examines the extent to which Bulgaria has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Bulgaria's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

This report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* (screening) were additional sources of information. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

b) Relations between the European Union and Bulgaria

Developments under the EU-Bulgaria Europe Agreement (including bilateral trade)

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

The Association Council met in October 1998 and will meet in November 1999. An Association Committee was held July 1999. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the last Commission's Report, the Joint Parliamentary Committee comprising representatives of the Bulgarian and European Parliaments met twice, in December 1998 and in March 1999. A first meeting of the Joint Consultative Economic and Social Committee took place in January 1999.

The share of the European Union in Bulgaria's overall foreign trade rose from 44.7 % of all exports in 1997 to 50.6% in 1998 and 60.3% in the first quarter of 1999. The share of the European Union rose from 38.7% of all imports in 1997 to 49% in 1998 and 49.3% for the first quarter of 1999. The two main product categories that are both exported and imported by Bulgaria are textiles and chemical products. Bulgaria exports base metals to the EU and imports machinery equipment from the EU.

¹ For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

With the adoption of a decision of the Association Council for amendments to protocol No 4 to the Europe Agreement, Bulgaria introduced and applied as of 1 January, 1999 the Pan-European cumulation of origin in relation to the preferential trade partners from the EU, EFTA, CEFTA and Turkey.

An antidumping complaint against Bulgaria amongst others concerning the steel sector and relating to hot rolled coils imports was introduced in December 1998.

In conformity with the priorities of the Accession Partnership, a Joint Assessment of Bulgaria's Medium-Term Economic Policy Priorities was signed in June 1999. A joint working group for the elaboration of a realistic timetable for the decommissioning of Units 1-4 of Kozloduy Nuclear Power Plant was set up.

In the framework of the enhanced pre-accession strategy and further to the respective decisions of the Association Council, Bulgaria participates in the following Community programmes: Youth for Europe, Socrates, Leonardo da Vinci, Save II, Third Program for SMEs, Kaleidoscope, Ariane, Raphael, AIDS Prevention, Combat against Cancer. Bulgaria is also included in the Fifth Framework Programme for Research, Technological Development and Demonstration.

Accession Partnership/ NPAA

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in section D of this Report.

In May 1999, Bulgaria presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see further part D).

Pre-Accession Aid: Phare

In 1999 Phare was the main instrument providing financial assistance to help Bulgaria's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated €865.5 million to Bulgaria during the period 1989-1999.

The 1999 Phare Programme for Bulgaria consists of a national allocation (of €50.5 million), concentrated on the following priorities:

- further integration of the Roma community, (€0.5 million)
- economic reform process through management training and SME promotion, (€ 4.8 million)
- reinforcement of the institutional and administrative capacity in the fields of public administration (training institute and Ministry of Finance), and competition and state aids (€6.5 million)
- strengthening of co-operation in the field of Justice and Home Affairs (border management, police, judicial reform), (€9.5 million)
- support for the environment (institution building and investments, (€4.9 million)
- development of agriculture (animal identification, preventive border control, phytosanitary control, statistics, legal approximation process, implementation of wine sector acquis), (€10.3 million)
- employment and social affairs through active labour market initiatives ("Beautiful Bulgaria"), (€4.5 million)
- participation in various Community Programmes and TEMPUS. (€9.6 million)

An additional € 30 million have been allocated for cross-border co-operation (CBC) programmes now being extended also to Romania. The programmes will provide support for transport infrastructure, telecommunications and environmental rehabilitation. In addition, funding will be provided under the Catch-up Facility², for projects in relation to job creation and promotion of foreign direct investment (€14 million).

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

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall the impact of Phare has been positive. Phare's support has been instrumental to Bulgaria's transformation process to adjust to the characteristics of a market economy, a democratic society and the other requirements of EU membership. Effective transfer of know-how and scarce equipment and financial resources has taken place in a number of important fields:

- In economic reform, the implementation of the mass privatisation programme completed in 1997 which supported privatisation of 8% of state assets involving some 1000 enterprises; and provision of privatisation agents who accelerated the privatisation of large enterprises accounting for 6% of state assets.
- In agriculture, where it contributed to the establishment of 33 private credit associations which have been instrumental in providing lending to more than 6,000 private farmers to a total amount of €7 million.

² Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

- In the socio-economic adjustment process, where emergency social assistance was provided as a rapid response to the 1996-97 economic crisis by focusing income support on some 25% of the poorest households. A job creation programme has been implemented jointly with the UNDP providing for jobs for some 3.500 people and vocational training to some 2.000.
- In visa policy, with the establishment of a modern visa control system providing efficient information in line with EU standards. This has been a significant step in the process of harmonising Bulgaria's visa policy with that of the EU.

Phare Management System

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a decentralised basis since it began. The authorities in the partner country have taken responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the candidate countries.

Phare implementation structures have been rationalised in Bulgaria to increase transparency and avoid dispersion of funds. This process increases the responsibility of the Candidate Countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

A National Fund located within the Bulgarian Ministry of Finance was established in December 1998 as the central entity through which Phare and other EU funds will be channelled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper project information system. A Central Finance and Contracting Unit has also been established within the Finance Ministry to increase visibility and transparency in financial administration, accounting and payments. As regards the investment side of Phare, Bulgaria started to establish a limited number of Implementing Agencies which will be responsible for the implementation for specific projects.

Bulgaria's performance regarding the implementation of the Phare programme has shown improvements but the Government needs to pay increased attention to ensuring appropriate and stable management capacity.

Pre-Accession Aid 2000

During the period 2000-2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

In the years 2000-2002, indicative figures for total financial assistance available will amount to around €300 million for Phare (including CBC), €156,3 million for Sapard and €249 to 375 million for Ispa.

Twinning

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. The European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States expertise is now being made available to the candidate countries, in particular through the long-term secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For Bulgaria, 10 projects have so far been twinned under Phare. In the agricultural area, Italy will lead a project to improve the national veterinary control system, while France, the Netherlands and the UK will address phytosanitary control, and Germany, will lead a project on approximation of legislation. In the environmental sector, Germany, Austria and France have set up a consortium in order to assist Bulgaria in the approximation of legislation and the development of a National Action Plan. In the financial sector, the Customs Law will be revised and the capacity to fight corruption strengthened. Denmark will lead an occupational health project, while the development of regional and structural policy strategies is supported by Spain. The United Kingdom and Greece are leading projects on the development of the ISPA and SAPARD Task Forces respectively.

Twinning is foreseen for eight projects under the 1999 programme covering, apart from a broad range of projects in the sector of Justice and Home Affairs, a wider field including a project on the strengthening of the Insurance Supervisory Authority, Institution Building in the Bulgarian Ministry of Environment and Water, and the development of administrative capacity to adopt and implement the *acquis* in the agricultural sector.

The screening process

The analytical examination of the *acquis* (screening) has been concluded for Bulgaria except with regard to the agricultural *acquis*, which is foreseen to be held mid-October 1999.

B. Criteria for membership

1. Political criteria

Introduction

In its 1998 Regular Report on Bulgaria's application for EU membership, the Commission concluded that:

"Developments confirm that Bulgaria fulfils the Copenhagen political criteria. There has been some progress in the fight against corruption although further efforts are needed. Continued attention also needs to be paid to respect for the rule of law at all levels of the administration and by the law enforcement bodies. Further efforts are required to prevent the social exclusion of the Roma and to reform the judiciary".

In the Accession Partnership with Bulgaria "further efforts to integrate the Roma and consolidation of protection of individual liberties" were mentioned as a medium-term priority.

Recent developments

The political situation continued to be stable during the last year. The reform-orientated majority under the leadership of the United Democratic Forces (UDF) has helped to secure continued support for market economy reforms and further integration Bulgaria with the European Union and Euro-Atlantic bodies. Commitment to EU membership remains high in the government agenda, one of the key foreign policy goals and a major inspiration for internal reform policies. Bulgaria is also continuing its preparations to prepare for NATO membership. Its commitment to integration was underlined again during the Kosovo conflict where Bulgaria projected an image of a stable country which respects the principles of democracy, the rule of law, market economy, was firmly supportive of all EU actions and aligned itself to all EU and NATO positions.

1.1. Democracy and the Rule of Law

As mentioned in the last Regular Report, Bulgaria has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

The Parliament

No major changes have been introduced as regards the role and the powers of the Parliament. The Parliament continues to operate smoothly. Its powers are respected and the opposition plays a full part in its activities.

The Executive

Policy making in the central institutions has improved but remains rather weak. Co-ordination between officials of different ministries needs to be improved with too many issues referred for discussion at the highest level, i.e. between ministers, where conciliation mechanisms work better. Assessment of the impact of laws, although mandatory, varies in quality and is often superficial.

The results of the administrative reform process have been so far rather limited but there has been progress with the entry into force of the Law on State Administration and more recently the Civil Service Law. The implementation of these laws is still at an early stage so it is premature to judge to what extent the new legal framework will contribute to the establishment of an independent, efficient and professional civil service.

New decentralised institutions (dependent on the central authorities) have been created in the 28 new administrative regions (*oblasti*). These should co-ordinate the action of the government in each region under the authority of a regional governor appointed by the Council of Ministers.

The Judiciary

The reform of the judicial system has continued. Developments since the last report focused on the structures of the judicial system and can be described as follows:

- In October 1998, the Law on the Judiciary was amended to improve the efficiency of magistrates and increase their professional responsibilities, assert the supremacy of the court in the process of administering justice, change the composition of the Supreme Judicial Council.
- On 1 October 1998, the reform of the notary system was completed. From that date, all notaries in Bulgaria have been operating as independent and self-supporting entities.
- The Criminal Procedure Code has been amended with a view to improving guarantees for basic rights and freedoms. The Civil Procedure Code is in the process of being amended.

With the introduction these reforms, an important part of the judicial reform process relating to the structures of the judicial system will be completed, in line with the requirements of the Constitution.

Despite these positive steps, judicial reform will have to continue. This would be more effective with an overall strategy including measures to increase the effectiveness and transparency of the judicial system, and its capacity to enforce the *acquis communautaire*. Elements which need to be taken into account include assuring the full independence of the judiciary, further legislative amendments in particular to streamline or clarify procedures for the administration of justice, for example improving access to justice, the material conditions in courts, division of tasks between administrative staff and judges, and the execution of rulings. The career structure and training of judges and magistrates needs to be aligned with European standards. Long pre-trial detention is an issue of concern and there are currently delays in the handling of cases but statistics available do not allow for a full assessment of the extent or development of the backlog. Creating public confidence in the judicial system remains an important element to address in reforms.

Anti-Corruption measures

Corruption remains a very serious problem in Bulgaria. Petty corruption is reportedly widespread in daily life. Surveys show that the sectors most affected are customs, municipalities, medical services, universities, the police, taxation authorities and courts.

Following the adoption in July 1998 of a National Strategy for combating organised crime, the government has continued to extend the scope of legislation against corruption. Bulgaria has ratified the major anti-corruption conventions, notably the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In January 1999, Bulgaria signed the Council of Europe Criminal Law Convention on Corruption. It notified its readiness to participate in the “Group of Countries for the Fight against Corruption (GRECO)” to the Secretary General of the Council of Europe in January 1999. The Parliament adopted in January 1999 a law amending the Penal Code which defines the term “foreign public official” in conformity with the OECD Convention and criminalises active and passive corruption by foreign officials.

The Government reports that 14 laws with a direct link to the fight against corruption have been adopted including amendments to the penal code, the law on customs, the tax procedure code and the law on insurance. However, Bulgarian legislation does not yet provide a concrete definition of the concept of "corruption" and further progress in the fight against corruption is also needed in the following areas: financing of political parties, strengthening of the legal framework in areas such as public procurement, financial control, liability of Ministers, improving the implementation of measures in areas such as money laundering and creating or strengthening internal and external control structures in the administration and the judiciary (including among prosecutors). Transparency and judicial control should be reinforced in the privatisation field.

Since the substantial increase in the number of criminal corruption cases dealt with in 1997, numbers have declined slightly from 142 cases in 1997 to 124 in 1998.

Despite the measures taken by the government, considerable further efforts remain necessary to achieve results in the fight against corruption.

1.2. Human rights and the protection of minorities

As mentioned in the last regular Report, Bulgaria continues to respect human rights and freedoms. The following sections only concentrates on subsequent major developments.

Bulgaria has ratified most human rights conventions (see annex). In September 1998, Bulgaria signed the European Social Charter (revised) of the Council of Europe. In May 1999, Bulgaria ratified the Framework Convention for the Protection of National Minorities of the Council of Europe. On 1 October 1999, it ratified Protocol N° 6 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty. Bulgaria ratified the Second Optional Protocol to the International

Covenant on Civil and Political Rights (abolition of the death penalty) in August 1999. Bulgaria has still to ratify protocols n° 4 and 7 of the European Convention for the Protection of Human Rights and Fundamental Freedoms.

Civil and political rights

In the period since the last report, the protection of civil and political rights has improved but there continue to be problems with the effective functioning of law enforcement bodies.

Progress can be noted in addressing some of the remaining human rights problems. Co-operation between the authorities and human rights groups has improved and human rights problems are considered to be an important issue in public debate. Recent developments can be summarised as follows:

- The National Assembly voted to abolish the death penalty in December 1998. Those who had been sentenced to death (since 1990 a death penalty moratorium had been in force) had their sentences commuted to prison terms.
- Shortcomings in the legislation on pre-trial detention and judicial control over the action of prosecuting authorities [are being addressed through the amendments to the Criminal Penal Procedure Code which are currently before the Parliament.] These will need to be followed by concrete measures on improving the material conditions of detention.
- The Refugees Law entered into force on 1 August 1999. It addresses the organisation of the system of granting asylum and provides a framework which will allow asylum seekers to exercise their rights and duties in a way compatible with European standards.
- Measures allowing the use of a defence lawyer by those accused of minor offences dealt with in an administrative manner have been taken, although the overall system still needs improvement to comply with the right to a fair trial. Problems persist concerning the placing of juvenile offenders in educational boarding schools and in particular their rights to defence.
- The overall situation concerning freedom of expression, freedom of the media and access to public information has improved somewhat. The National Council for Radio and Television has been established as an independent body to monitor compliance by electronic media with the requirements of the media law without interfering in programme content. However, the situation concerning media independence is still of concern. Current plans to introduce general freedom of information legislation are a step in the right direction.

Concerns about the abuse of power by law enforcement bodies, especially the police, remain. The legal framework needs to be adjusted to introduce more transparency to ensure more effective civilian control and to limit the use of and prohibit the misuse of firearms. Investigation of cases of ill-treatment of suspects by police officers and detainees awaiting trial and sentencing needs to be accelerated.

The conditions in many prisons and detention centres give cause for concern. Most problems are related to lack of funding. Government control over the security forces has improved,

although this is still insufficient. Training and education in international human rights law for representatives of the judiciary must be improved.

There remain problems with trafficking of human beings, especially women, which need to be addressed in particular in the context of strengthening of border control.

Economic, social and cultural rights

The integration of disabled people is guaranteed by law and there are provisions for financial assistance. However, implementation of policies is slow or inadequate, because of the lack of sufficient resources.

Tensions regarding treatment of certain religious groups have been eased. However, there continue to be cases where local authorities and police interfere arbitrarily with the activities of such groups. Registered religious groups are given equal access to national media on the basis of the new media law and the press coverage of their activities has become in general less hostile.

Trade unions continue to play an active role in society. However their impact on the economic restructuring process has not been significant due to their limited capacities and the tendency of the authorities not to consult Unions despite formal obligations to do so.

Minority rights and the protection of minorities

The Framework Convention of the Council of Europe on the Protection of National Minorities was ratified in May 1999.

The Roma Minority, which represents about 5% of the population, continues to suffer from discrimination including in contacts with the administration. Police protection is inadequate. Social exclusion is considerable, with high levels of poverty, illiteracy and very high levels of unemployment. A disproportionate number of Roma children are sent to special schools for the mentally handicapped. Health and housing conditions remain considerably lower than those of the rest of the population.

Some steps have been taken to improve the situation of the Roma minority:

- A framework programme for the integration of Roma into Bulgarian society was adopted in April 1999. This followed extensive consultations between the government and most of the Roma organisations and human rights NGOs within the framework of the National Council for Ethnic and Demographic issues. The programme sets out core principles and general measures to fight discrimination and unemployment, increase levels of education and health care, improve housing conditions, and to ensure cultural protection and access to national media.
- The framework programme envisages the establishment of a National Committee for Prevention of Discrimination.

- Following the creation of 28 regions in Bulgaria, Roma representatives have been appointed to 10 of the 28 regional centres. Roma advisors have also been appointed to a number of ministries.

The above measures reflect the political commitment of the Bulgarian government towards improving the situation of the Roma. However, the framework programme must now be followed up by concrete actions by the ministries concerned. The necessary budgetary means for the implementation of this programme also need to be allocated.

The Turkish minority (about 9% of the population) is on the whole fully integrated and represented in political life. However, some of the regions where this minority is concentrated are hit by economic problems and suffer from low investment and high unemployment. The government has decided to improve education in the Turkish language but has not yet announced concrete measures.

1.3. General evaluation

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

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”.

The 1998 Regular Report confirmed this finding, while acknowledging the progress being made by Bulgaria in the creation of a market economy.

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

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 Regular Report.

2.2 Economic developments

Despite the unfavourable external environment, macroeconomic developments in Bulgaria have remained largely positive since mid-1998. Economic activity and real incomes have recovered from the depressed levels of early 1997, inflation has been reduced to low levels and the currency has remained stable. However, the Kosovo crisis has affected the still fragile economy. GDP growth started to decelerate in the second half of 1998, and Bulgaria's external position deteriorated significantly last year, in large part due to falling exports. On the structural front, the government has pursued the implementation of an ambitious programme of reforms. While progress in privatisation has slowed somewhat, major measures have been taken in the budgetary sector. Efforts to strengthen financial discipline in state-owned enterprises have been partially successful, although the problem of tax arrears continues to need attention.

Macroeconomic developments

Economic activity recovered in 1998, with real GDP growth estimated at 3.4 %, after a contraction of a cumulative 17% in 1996-1997. Most of the recovery took place in the first half of 1998. The slowdown in GDP growth in the second half of the year is due to both the effects of the downturn in international markets and the ongoing restructuring in the industrial

sector. A striking feature of economic developments in 1998 was the sharp decline in industrial production. Weak industrial sales and negative developments in external accounts in the first months of 1999 point to a marked deceleration of growth this year. The Bulgarian authorities have revised their GDP growth forecast for 1999 downward from 3.7% to 1.5%.

GDP growth in 1998 was driven by private consumption and investment. During 1998, consumer spending was supported by the rapid growth in real incomes and increased consumer credit. Consumer confidence has also been boosted by employment growth. However, the unemployment rate based on the ILO definition increased to 16% in 1998 from 15% in 1997.

Together with the fall in industrial sales, the sharp decline in exports observed in 1998 reflects ongoing industrial restructuring and the negative impact on the Bulgarian economy of the Russian crisis. At the same time, falling international prices for major export products were an important factor explaining Bulgaria's weak export performance. Exports fell by 13.1% in dollar terms compared with 1997 whilst imports, driven by the recovery in domestic demand, grew by 1.4%. The trade and current account balances shifted from large surpluses in 1997 to larger-than-expected deficits in 1998, of 3% and 1.8 % of GDP respectively. Exports declined further in early 1999. As a result, the current account deficit widened to €503 million in the first six months, compared with a deficit of €87 million in the same period of last year.

On the capital account, inflows of foreign direct investment (FDI) were about three quarters of the amount recorded in 1997. The slow progress on privatisation and the reduced interest of foreign investors in emerging markets accounted for the decline in FDI inflows and net portfolio investments.

Bulgaria's already difficult external environment has also been affected by the Kosovo crisis. Despite the termination of the military campaign, the Kosovo crisis is expected to lead to a further deterioration of Bulgaria's external accounts and affect growth prospects for 1999. The main reasons are the increase in transportation costs due to the disruption of traffic through the Federal Republic of Yugoslavia (FRY), and the contraction of regional trade. Further progress on the reduction of inflation thanks to the stabilising effect of the currency board and the fall in international commodity and energy prices. The end-year inflation rate was 1% in 1998, far below the 16% forecast underlying the budget. The downward trend in inflation continued this year, with the year-on-year inflation declining to 1.3% in July. Increases in administered prices account for the temporary surges in inflation observed in September 1998 and January 1999.

The turmoil on international financial markets did not disturb the operation of the currency board arrangement (CBA). In 1998, large disbursements from official creditors contributed to a further rise in the reserves of the central bank. They stood at €2.7 billion at the end of 1998, which is equivalent to 6 months of imports of goods and services. Thus, the foreign reserves are more than adequate to cover the central bank's liabilities under the CBA. Since 1 January 1999, the euro has replaced the deutsche mark as peg currency. And on 5 July 1999, the lev was redenominated by removing three zeros, so that one lev now equals one deutsche mark. The base interest rate fluctuated between 5.2% and 6.2% throughout 1998 and declined to about 5% in early 1999. The base interest rate which is linked to the average yield of three-month Treasury bills, has been little affected by the international financial crisis.

In 1998, as in 1997, the fiscal performance was better than expected. The consolidated budget recorded a surplus of 1.1% of GDP, against a projected deficit of 1.7%. Unexpectedly high revenues together with expenditure restraint and favourable interest rate developments accounted for the improvement. The 1999 budget has provided for an overall deficit of 2.8% of GDP. However, in view of the widening of the current account deficit, the authorities adopted a general government deficit target of 2% of GDP in May. A higher-than-programmed surplus was recorded in the first half of the year.

Main Economic Trends

Bulgaria		1995	1996	1997	1998	1999 latest	
Real GDP growth rate	per cent	2.9	-10.1	-6.9	3.4	0.5	Jan-Jun
Inflation rate							
- annual average	per cent	62.1	123.0	1082.	22.3	:	
- December-on-December	per cent	32.9	310.8	3 578.5	1.0	1.3	Jul
Unemployment rate, end-year							
- ILO definition	per cent	14.7	13.7	15.0	16.0 ³	:	

³ Provisional

General government budget balance	per cent of GDP	-5.1	-15.3	-0.3	:	:	
Current account balance	per cent of GDP	-0.2	0.2	4.2	-1.8	-10.2	Jan-Jun
	million ECU/€	-20	13	376	-197	-503	Jan-Jun
Foreign debt ⁴							
- debt export ratio	per cent	151	158	155	184	200	Jun
	per cent	:	:	132	132	:	
- gross foreign debt	billion ECU/€	7.7	7.7	8.8	8.8	9.2	Jun
	billion ECU/€	:	:	7.9	7.2	:	
Foreign direct investment net inflow	per cent of GDP	0.6	1.0	4.9	3.3	:	
- according to EBRD	million ECU	69	86	445	358	200	Jan-Jun
- balance of payments data							

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD

Structural reforms

The results of the privatisation process in 1998 present a mixed picture. Although the number of companies sold was considerably higher in 1998 than in 1997, there was a slowdown in the pace of privatisation last year when progress is measured in terms of assets sold or privatisation proceeds. The cumulative share of divested long-term assets of enterprises increased from nearly 20% at the end of 1997 to 28.7% at the end of 1998, which is a smaller increase than that recorded in 1997. As management employee buy-outs accounted for a large number of the sales and concerned mainly small enterprises, privatisation proceeds fell sharply. In some cases, management buy-outs were applied to larger enterprises, which might have repercussions on the capacity of the privatised companies to deal with restructuring. The authorities have set themselves the ambitious target to privatise all commercial enterprises, as well as a significant part of the utilities, by the end of 1999, representing about 70% of all fixed assets subject to privatisation. Significant progress has already been achieved in recent months, with the successful privatisation of the Bulgarian telecommunications company in July, for over €450 million. Although Kremikovski, the largest Steel mill was sold, it is not clear how the restructuring of the steel sector will be carried out.

Progress in enterprise privatisation in 1998 was hampered by the reduced interest of foreign investors in emerging markets and, more importantly, by legal and administrative obstacles.

⁴ The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

Recognising the need to improve the legal and institutional framework for privatisation, the government proposed several amendments to the Privatisation Law which were adopted at the end of 1998. In particular, the amendments aim to limit the preferential treatment of management and employee buy-outs and allow the reduction or writing off of some company debts. Another amendment provides for the earmarking of privatisation revenues to the state budget as a measure designed to increase the transparency of the budget and prevent the granting of subsidies outside the budget.

Bank privatisation continued to proceed slowly. To date, two state banks, United Bulgarian Bank and Postbank, have been privatised. Three out of the four remaining state banks are expected to be privatised this year. A tender was issued for Express Bank in the first quarter, and binding bids have been received. A shortlist of potential buyers is being compiled for Bulbank..

Measures to tighten tax administration and changes in tax legislation led to higher-than-expected tax revenue in 1998. The decision to introduce a unique identification number for all Bulgarian businesses will contribute to further increasing the efficiency of tax administration provided that it is fully implemented. The 1999 budget has pursued the reform of the tax system initiated in 1998 by reducing the VAT rate, while eliminating most remaining exemptions and by lowering the corporate tax rate. In addition, as part of the health care reform, a 6% payroll tax was introduced on 1 July 1999.

On the expenditure side, a number of measures have been taken in the 1999 budget to improve expenditure management and increase the transparency of fiscal operations. Most significantly, the number of extra-budgetary funds has been reduced from over a hundred to 28. The legislation required for the implementation of the health care reform was adopted. Further progress was made to prepare the operation of the new National Health Insurance Fund expected to start in 2000. Two important laws were adopted in January 1999 with a view to streamlining facilities and employment in the health care sector. Preparation of the reform of the pension system continued and a decree tightening eligibility conditions for early retirement was adopted.

In the banking sector, measures have been taken to strengthen banking supervision and improve the efficiency of the sector. A self-financing deposit insurance system was introduced in January 1999. Prudential standards have been strengthened and the Law on Banks adopted in 1997 provides the central bank with enhanced powers to ensure compliance with these rules. As a result, the banking system is relatively sound and highly capitalised. At the end of 1998, all banks met the minimum capital adequacy ratio of 10% and the system-wide average ratio reached almost 37%. Most banks continued to reduce their open foreign exchange positions. However, the sector still suffers from high operating costs and low profitability. With the exception of one bank whose license was withdrawn in January 1999, the banking system has not been significantly affected by the Russian crisis and the turmoil on international financial markets.

The government also attaches importance to the development of the stock market which reopened in October 1997. The new Securities Public Offering Act adopted by Parliament in January 1999 aims to put in place an appropriate regulatory framework and adequate supervision. In particular, it enhances the protection of minority shareholders and strengthens the supervisory and regulatory powers of the State Securities Commission. Voluntary pension funds, which already exist in Bulgaria, are expected to play an active role in the development

of domestic capital markets and a law regulating their activities was adopted by Parliament in first reading.

With regard to enterprise reform, the authorities have achieved good progress in limiting the losses of state-owned enterprises and promoting their restructuring by isolating the major loss-makers from the banking system. The isolation programme was completed for commercial enterprises (Group B) at the end of June, six months later than in the original timetable. All the 41 Group B enterprises, with the exception of one, have been privatised or put under liquidation. However, the date for the completion of the programme for these enterprises had already been extended by six months. Progress in restructuring utilities (Group A) has been less satisfactory, and no date has been set yet for completing the isolation of these companies. Measures have also been taken to strengthen financial discipline in state-owned enterprises, but wage developments in the state sector in 1998 showed that there is scope to improve compliance with incomes policy regulations. In order to improve the effectiveness of the policy, the government decided that the wage bills of loss-making state-owned companies would be frozen in the first half of 1999. Very few enterprises violated this freeze in the first quarter.

As for the agriculture sector, recent legislative amendments are designed to accelerate the land reform, notably by introducing a free of charge procedure for issuing legally binding titles. The privatisation of the agro-food industry has accelerated. As of May 1999, nearly 57% of the fixed assets under the responsibility of the Ministry of Agriculture, Forestry and Agrarian Reform had been privatised. Progress was made in the liberalisation of the price and marketing system by removing government controls on domestic farm gate prices in August 1998.

Main Indicators of Economic Structure in 1998		
Population (average)	thousand	8257
GDP per head	PPS-ECU per cent of EU average	4600
Share of agriculture ⁵ in:		
- gross value added	per cent	21.1
- employment	per cent	25.7
Investment-to-GDP ratio	per cent	11.6
Gross foreign debt/GDP	per cent	65.7
Exports of goods & services/GDP	per cent	45.2
Stock of foreign direct investment, according to EBRD	million ECU ECU per	: :

⁵ Agriculture, hunting, forestry and fishing.

head

<p><i>Source: National sources, IMF, EBRD.</i></p>
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2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

Low inflation and exchange rate stability have generated a wide support among the population for the currency board arrangement. There also exists a broad consensus on the medium-term reform programme which was adopted by Parliament. Further evidence of this is provided by the fact that the authorities have reaffirmed their strong commitment to structural reforms following the outbreak of the Kosovo crisis. Economic policy making could be improved by better co-ordination between line ministries. There are some encouraging signs in this regard. The Bulgarian authorities completed a Joint Assessment of Bulgaria's medium-term economic policy priorities in May 1999. A European Institute responsible for stimulating policy action needed to prepare Bulgaria for EU accession has been recently created.

Despite increasingly difficult external conditions, macroeconomic stability has been maintained. Inflation has further declined and fiscal performance has continued to be strong. Although Bulgaria's external accounts have deteriorated significantly, the authorities have managed to keep the current account position at sustainable levels. The measures recently taken to improve expenditure management and increase the transparency of fiscal operations, together with the social protection reform, will contribute to ensuring medium-term fiscal sustainability. However, tax arrears of state monopolies remain a problem and there is a need to strengthen financial discipline in state-owned enterprises.

After the significant liberalisation measures taken in 1997-98, the prices of most goods and services are determined freely by market forces. The share of administered prices in the CPI basket stood at 17.4% in early 1999, virtually at the same level as a year earlier. Substantial progress continues to be made in bringing administered prices closer to market determined levels. This is particularly true for energy prices which are expected to be liberalised by 2001 as part of the reform of the energy sector. Most significantly, the law on prices, which formed the legal basis for state intervention in price setting, has been abolished in July 1999 and the obligation for retailers to negotiate prices with producers was removed last September. The system of monitored prices, which allows the government to influence price setting, subsists only for two types of goods, i.e. water and pharmaceuticals.

Substantial progress in the liberalisation of foreign trade has been achieved. The import surcharge was abolished ahead of schedule on 1 January 1999. Average and maximum tariff rates on industrial products have been further reduced. All temporary tariff quotas and tariff

exemptions with the exception of those specified in international agreements were eliminated at the end of 1998. These measures together with the entry into force of a new customs tariff on 1 January 1999, contribute to improving the transparency of trade policy. The authorities have started to liberalise the non-tariff elements of the trade regime. However, some export taxes remain and the trade regime still comprises a large number of tariff rates. Although it is being progressively reduced, the average level of tariff protection for agricultural products remains high.

While more than 80% of total agricultural land has been restituted to its former owners, there are still obstacles to a proper functioning of the land market. In particular, a land cadastre needs to be established.

Bulgaria now has an adequate legal framework for bankruptcy and insolvency, but the implementation of these laws remains very disappointing because of a weak judicial capacity. By November 1998, insolvency or liquidation procedures had been initiated for 384 companies and completed in only 41 cases. Only a minority of the bankruptcy and liquidation cases concerns state-owned enterprises, which suggest a possible bias of the courts vis-à-vis private creditors. The qualifications of judges involved in bankruptcy cases needs to be improved. For banks, the liquidation procedure is especially lengthy. Amendments to the Banking Law have been drafted in order to accelerate the liquidation of the 11 banks which are already closed.

As a result of the progress made in privatisation and enterprise restructuring, the private sector has raised its share in GDP to over 60%. However, the entry of new firms and banks is still hampered by the lack of an adequate business climate. Frequent changes in the legal framework and problems with the implementation of legislation discourage private sector initiative and investment. In order to increase Bulgaria's attractiveness to domestic and foreign investors, there is a need to persevere with institutional and legal reforms to improve law and contract enforcement, reduce red tape and fight corruption.

Bulgarian banks still remain weak in fulfilling their role of intermediaries between savers and investors. The share of domestic credit to GDP fell to 20.3% at the end of 1998 from 28.7% a year earlier, as a result of the sharp decline in credit to the central government and public enterprises. By contrast, credit to the private sector increased substantially last year. The high spread between lending and deposit rates, which remained above 10 percent throughout 1998, still reflects the cautious approach of banks to lending and the absence of keen competition among them. To improve financial intermediation, banks need to build up expertise in assessing credit risk and be in a position to enforce the collection of loans when necessary. Privatisation of the four remaining state banks will be a major driving force for increasing the efficiency of the banking sector.

Bulgaria continues to make progress in establishing a functioning market economy. Implementation of the macroeconomic stabilisation and reform strategy centred on a currency board arrangement and a prudent fiscal policy have produced economic stability. Bulgaria has achieved a high degree of price liberalisation and further liberalised its trade regime. However, the reform effort needs to be sustained by completing privatisation, enforcing financial discipline in the enterprise sector (e.g. accounting standards, tax collection, etc.) and strengthening market economy supervisory bodies. Further steps are needed to ensure a stable and transparent legal framework for business.

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

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

Macroeconomic stability fosters the conditions necessary to develop Bulgaria's capacity to cope with competitive pressures within the single market. Sustained reform efforts and determined implementation of the legal framework will be required to accelerate its transition to a fully functioning market economy.

Improvements in competitiveness have been hampered by low levels of investment. Gross fixed capital formation as a share of GDP was only 12% in 1998. Large investments will be required to modernise the country's productive capacity and develop its infrastructure. The three-year investment programme adopted by the government in 1998 and designed to address needs in infrastructure, more specifically in telecommunications, transportation and energy, is an important step in the right direction. However, complementary measures need to be adopted to ensure successful implementation of this ambitious programme. They include measures to increase the efficiency of the public administration, and to create a regulatory environment conducive to private investment.

Efforts to enforce hard budget constraints on enterprises are a key element of the government strategy to improve the competitiveness of the economy. The successful completion of the isolation programme, together with the recent incomes policy measures, are encouraging signs. However, further efforts to impose financial discipline on state-owned enterprises are needed. In particular, tax arrears of state monopolies which are a source of hidden subsidies will have to be significantly reduced. In addition, the issue of corporate governance in newly privatised enterprises needs to be addressed.

The degree of trade integration with the Union is increasing steadily. The EU accounted for almost 50% of exports and 45% of imports in 1998. The two main product categories that are both exported and imported by Bulgaria are textiles and chemical products. Bulgaria exports base metals to the EU and imports machinery equipment from the EU. Machinery imports increased substantially in 1998, showing that Bulgaria is upgrading its production capacity. Overall, the level of intra-industry trade between Bulgaria and the EU remains low. This indicates that much can still be done to improve the competitiveness of Bulgarian exports on the EU markets.

Since the start of transition in 1990, the number of small and medium-sized enterprises (SMEs) in Bulgaria has increased rapidly and they now account for well over 90% of all registered economic entities. The vast majority are micro-enterprises with less than five

employees, and their main activities are in retail business. The share of SMEs in total employment, at about 41%, is low compared with the EU average. This suggests that there is scope for developing the employment possibilities offered by these enterprises in order to absorb the redundancies resulting from enterprise restructuring. These firms suffer from a lack of availability of long-term financing and an inadequate business environment. In order to facilitate their access to banking finance, the Bulgarian authorities have set up a state bank, Promotion Bank, specialised in lending to SMEs. In addition, a draft law designed to stimulate the development of SMEs was adopted by Parliament in April.

Bulgaria is not yet in a position to cope with competitive pressures and market forces within the Union in the medium term. Despite moving forward with its reform programme, much remains to be done to improve the competitiveness of the Bulgarian economy. Sustained levels of domestic and foreign investment are required to upgrade Bulgaria's infrastructure and accelerate enterprise restructuring. Further reform of the financial sector, in particular continued privatisation, is required to make it more efficient.

2.4. General evaluation

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

Macroeconomic stability has been maintained thanks to implementation of sound fiscal and incomes policies under the currency board arrangement. Despite an adverse external environment, the authorities have persevered with their ambitious reform agenda.

Priority should now be given to completing privatisation and accelerating restructuring of the enterprise and banking sectors. Special attention should be paid to liquidation and bankruptcy procedures in order to make them more effective. Additional measures are needed to impose financial discipline, particularly on state-owned enterprises. The authorities should also intensify the reform of the financial sector, in particular continued privatisation. Further steps are needed to ensure a stable and transparent legal framework for business.

3. Ability to assume the obligations of membership

This section aims to update the Commission's Regular Report of 1998 as concerns Bulgaria's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1998 Regular Report on Bulgaria's Progress towards Accession, the Commission concluded that:

“The pace of transposition of Community legislation in Bulgaria has picked up in most areas. However, implementation and enforcement capacities need to be strengthened. Given limited administrative and financial resources, this remains a major challenge and it is too early to assess if the newly transposed legislation will be effectively applied.

Attention devoted to strengthening the intellectual property legislative framework and enforcement capacity reflects positively on the country's ability to adopt and apply key legislation.

Bulgaria needs to put into place a system of standards and certification compatible with that of the EU, and to give immediate attention to the adoption of the necessary legal base. Although first steps have been taken towards control of state aids, much more needs to be done to apply the rules. In agriculture, further efforts are needed to complete land reform, to develop an active land market, to set up and operate a unified land registration system, and to strengthen veterinary and phytosanitary control. While Bulgaria is now developing a comprehensive energy plan, the intentions of the government with regard to the closure of certain units in Kozloduy are still unclear. Initial progress in justice and home affairs is encouraging but needs to be enhanced, particularly with regard to border management issues, in view of Bulgaria's request to be removed from the common visa list.

Bulgaria has made progress in addressing certain aspects of all of the short term Accession Partnership priorities.”.

The presentation which follows uses the same structure as the 1998 Regular Report. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

3.1. Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public

procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

Concerning *public procurement*, a new law was adopted in August 1999 which takes on the basic principles of the Community *acquis*. Further alignment is needed concerning preferences for offers that promote local employment provisions and social requirements and a requirement that bidders be registered in Bulgaria if they are awarded a contract. Next to legislative alignment, effective enforcement remains the main challenge. No figures are available for 1998 as collection of data started in 1999 and the tender register is still under construction so it is too early to judge the effectiveness of the new law.

As regards *intellectual property* rights and certain related rights, the current copyright law of 1993 was amended in 1998 in order to widen the scope of administrative violations and to increase the level of fines. Implementation of the database directive and full implementation of the rental directive, of the term of protection directive as well as of the software directive should now become a priority.

Substantial progress has been made in the fight against piracy, which now seems to be under better control, in particular as regards exports. Bulgaria was taken off the US watch list on intellectual property rights because of progress in law enforcement. The Penal Code has been amended, judicial procedures and border controls have been improved. However, more progress should be made as regards enforcement, in particular against piracy on the domestic market, and legal provisions relating to enforcement should be further strengthened.

As regards *industrial property* rights, Bulgaria has adhered to the main international instruments for IPR protection. In March 1999 Bulgaria became an observer in the Administrative Council of the European Patent Organisation. It has been invited to become a member of the European Patent Convention from 1 July 2002. The main implementing body, the Bulgarian Patent Office, needs to be strengthened in view of its extended responsibilities under the new laws. In September 1999, Bulgaria adopted a new law on trademarks. Bulgaria needs to make further efforts to ensure required protection of industrial property rights.

In the field of *company law*, not much progress has been achieved since the last Regular Report. However, legislation has a high degree of compliance. Bulgaria has carried out a detailed analysis of the existing legislation and has prepared amendments to the Commercial Code in view of its further alignment with First, Second, Eleventh and Twelfth Directives.

As far as *accounting* is concerned, work on the adoption of international and European accounting standards has continued. Since the last Report a number of national accounting standards were adopted in order to ensure compliance with international accounting standards. Bulgarian accounting legislation needs to be further amended to achieve full compatibility with EC law in line with the requirements laid down in the Fourth, Seventh and Eighth Company Law Directives.

As regards the implementation of a *data protection* policy, there has been little progress since the last report. However, a law on the identification documents was adopted in April 1999 which corresponds to relating requirement of the Council of Europe Convention n°108 on personal data protection which Bulgaria signed in June 1998 but has yet to ratify.

The four freedoms

In the Opinion, the Commission indicated that in all areas of the internal market, Bulgaria's legislation was only very partially in line with the *acquis*.

The assessment in the regular report of 1998 recognised that progress had been made but that the scale of progress still required called for considerable and sustained efforts both in approximation of legislation and in its implementation.

Free movement of goods

Bulgaria has made progress in this field in particular with the Law on National Standardisation, adopted in June 1999, which also established the appropriate administrative bodies in this field. However, the legal basis for taking on all New and Global Approach principles does not yet exist. This is necessary before specific new approach directives can be implemented.

For motor vehicles, a Road Traffic Law entered into force in September 1998. This law constitutes the framework to transpose the basic directives on Type Approval of Motor Vehicles.

In the area of drug precursors, a Law on the Control of Narcotic Substances and Precursors was adopted in March 1999. This law seems to be in compliance with the relevant *acquis*.

At present there are no statutory instruments containing regulations corresponding to the EU *acquis* in the field of glass, labelling of textile goods and on labelling of footwear but the law on Consumer Protection and Rules for Trade of March 1999 sets the legal base for the adoption of ordinances to implement the *acquis* in these areas.

In the field of legal metrology, three implementing ordinances have been adopted (on measurement standards, on metrological control and verification marks and on the authorisation for verification and repairing of measurement instruments) on the basis of the Law on Measurements of April 1998.

A Law on Control of Explosive Substances, Firearms and Ammunitions has been in force in Bulgaria since October 1998. This law sets up the control of activities related to the explosive substances, carried out by physical, judicial bodies and traders.

As regards product liability, considerable progress has been made through the adoption of the law on Consumer Protection and Trade Rules (see further section on consumer protection).

Free movement of capital

Bulgaria still applies an authorisation procedure for most outward capital transactions. Since the last regular report, Bulgaria adopted in September 1999 a new Currency Law which will enter into force from January 2000 and should contribute to liberalisation of capital exports.

As regards capital inflows, the regime is liberal. Under the current legislation, direct foreign investment is fully liberalised. Foreign investors can repatriate their profits freely. The tax

preferences provided to encourage foreign investments were abolished in early 1999. In consequence, foreign and domestic investments are treated on an equal footing. The earlier constitutional problem prohibiting acquisition of direct ownership by foreigners of real estate is partially resolved. Joint ventures or 100%-foreign owned companies registered under Bulgarian law are allowed to buy land, including agricultural land, for business purposes

Free movement of services

The restructuring of the banking and financial services sectors has been continued and further measures introduced to strengthen regulation.

In the *banking* sector, the privatisation process has continued. Two out of the six remaining state owned banks have been privatised. The privatisation process for another three has been launched and scheduled to be completed before the end of 1999. A law entered into force in 1999 to strengthen and convert the State Savings Bank into a commercial bank.

In general, the banking sector's prudential standards, enforcement capacity as well as banking supervision have been strengthened, though further progress in these areas is still required. The liquidation of bankrupt banks has not been finally resolved. Financial functioning of banks needs to be improved, including the capacity for loan assessment, enforcing the collection of loans and the sale of collateral. The Pledges law, the Banking law and the Bankruptcy law should be revised to accelerate the court procedures for collateral sales, to ensure the functioning of special pledges and the loan registers. Procedures for granting licences for the provision of financial services and for the liquidation of banks have been strengthened. Further to the law on bank deposit guarantee, a bank guarantee fund was established in January 1999 to administer the guarantee provisions under the law. As of January 1999 banks are required to provide financial reporting in compliance with international accounting standards though these provisions have not been fully introduced. Further alignment is needed in the areas of large exposure, consolidated supervision and netting as well as for new *acquis* in relation to capital adequacy.

Following the 1998 law on measures against *money laundering*, which is largely in line with international standards and the *acquis*, implementing regulations have been adopted providing for the establishment in November 1998 of the Bureau of Financial Intelligence as a specialised body within the Ministry of Finance. The impact and effectiveness of the new legislation cannot yet be assessed.

The *insurance* market is in a consolidation phase and remains underdeveloped. Progress has been made in bringing insurance legislation into line with the *acquis* and developing the administrative capacity for its enforcement. The main prudential rules of the first-generation insurance directives have been adopted but further legislative work to align with the *acquis communautaire* is necessary. In the field of motor insurance, Bulgaria's Green Card Bureau will comply with the EU norms by the end of 1999.

Supervision of non-bank financial institutions and the regulatory framework for *securities* is being established. The Law on Securities was amended in March 1999 with a view to further alignment with the *acquis*. The securities market is not well developed and not yet an active vehicle for the privatisation process. Further alignment is envisaged in relation to public offers, and insider trading.

In terms of companies listed, there is rapid development in other financial sectors, but the stock exchange market remains in its infancy. Mass-privatisation and privatisation of state owned enterprises via the stock market, as well as a new legal framework in the form of amendments to the Law on Securities, will be crucial for expanding the role of financial services.

Bulgaria has made progress in the process of improving its *payment* system since last year. However, no further progress has been made towards the implementation of a real time gross settlement system (RTGS).

Free movement of persons

Bulgaria has made progress in this field. Concerning freedom of establishment, the Law on Foreigners in the Republic of Bulgaria entered into force in April 1999 and regulates issues including those connected with the stay of foreigners with business activities, employment or education in Bulgaria.

As regards mutual recognition of diplomas and professional qualifications, the Bulgarian government has continued approximation of legislation in this area in particular through amendments to the National Education Act, Labour Code, and Laws on Foreigners and Foreign Investment, all of which were effective from January 1999. The law on Veterinary Medical Activities adopted on 12 April 1999 regulates the basic issues concerning the acquisition of diploma and the right to provide veterinary services.

Competition

The Law on the Protection of Competition and the Competition Law are largely in line with EC *anti-trust* rules. Secondary legislation introducing the *acquis* on block exemptions still needs to be elaborated and adopted in line with the *acquis*. The Commission for the Protection of Competition (CPC) has played an increasingly more important role over the past period, which is underlined by the number of cases dealt with effectively. In 1998, there were 179 anti-trust cases and decisions were taken in 135 of these. For January to September of 1999, of the 94 cases, decisions have been taken on 87. However, the CPC should still be strengthened in terms of numbers and qualification of staff.

As regards *state aids*, no systematic control to ensure compatibility of state aid with the *acquis* yet exists. The State Aids Department of the Ministry of Finance has been established as the state aids monitoring authority. However, the Commission for the Protection of Competition is in charge of state aid control, i.e. the examination of the compatibility of state aids under the new competition act. Bulgaria still needs to invest substantial efforts in developing a state aid monitoring system.

The State Aids Department of the Ministry of Finance has prepared state aid reports covering the period 1996-1998. It does not yet follow EU methodology.

As regards state monopolies of commercial character and public undertakings, Bulgaria should be encouraged to continue its efforts in the process of liberalisation according to Article 86 of the EU Treaty.

Conclusion

Progress has been made in meeting the short-term priorities of the Accession Partnership, notably in the areas of intellectual property and standardisation and certification where much preparatory work is underway. Laws have been adopted in areas such as public procurement and product liability. However, in areas such as data protection, legislative alignment is still lacking. In many areas notably public procurement, industrial property rights and financial services, significant efforts are now necessary in implementation and enforcement of laws.

In competition policy, Bulgaria has partly met the Accession Partnership priority. It has made progress on anti-trust policy but substantial efforts are needed to establish adequate control of state aids.

3.2. Innovation

Information society

Good progress has been made since the last regular report. Bulgaria has established a Council on Information Society to co-ordinate developments between relevant government departments. 8 working groups have been established in different thematic areas and will make recommendations for action.

Bulgaria hosted the second Regional Year 2000 Conference of national co-ordinators from central and eastern Europe and central Asia on 10-12 June 1999 where the preparation of energy and telecommunications strategies and solutions and crisis planning on the eve of the second millennium were discussed.

Education, training and youth

Progress has been made in a number of areas. A new Act on Educational levels and the curriculum has been adopted to introduce European standards. The new Higher Education Law has been amended and a new Vocational Education and Training act adopted which rationalises the training system to bring it more into line with EU standards.

Participation in Tempus has been instrumental in promoting co-operation in higher education between Bulgaria and the EU. Bulgaria now participates in the Youth for Europe, Socrates and Leonardo programmes.

The policy development capacity of the Ministry of Education and Science and needs to be reinforced and the capacity of the administration to implement new legislation should be further developed. The system needs to be further decentralised and deconcentrated, especially in financial management of schools.

In 1998-99, 98 students have benefited from Erasmus mobility grants to study in EU countries and 1300 young Bulgarians have taken part in the Youth for Europe programme.

Research and technological development

The present Community *acquis* does not require transposition into the national legal order. However, the research and technology infrastructure still awaits the introduction of new legislation planned concerning Higher Education, Agricultural Science, Strategy for Development of High-Tech Activities, and Promotion of Scientific Research and Technology Development.

The association of Bulgaria with the 5th Framework Programme (1999-2002) and with the Euratom Framework Programme entered into force in September 1999. In order to prepare for successful association, several information dissemination structures have been created or consolidated recently. Nevertheless, association to the 5th Framework Programme will test the implementation capacity, and it will be necessary to increase support to the research and technological development sector during the coming years. Bulgaria has announced that it will open up its corresponding research activities to enterprises, researchers and universities from EU member states.

Telecommunications

Starting from a high level of fixed line telephone penetration at the end of 1997 (31.8 lines per 100 inhabitants), the fixed line network has grown to about 33.6 lines per 100 inhabitants in 1998. Although digitalisation of the international (100%) and long distance (80%) networks is well advanced, investment is needed in the local loop where the level of digitalisation is low at only 8%. Although mobile telephone penetration has trebled during 1998, the level is low at 1.6 per 100 inhabitants, leaving considerable room for growth.

With the adoption of the new Telecommunications Law in 1998 introducing a liberalised regime for activities in the telecommunications sector and the Government's decision on the Telecommunications Sector Policy in October 1998, Bulgaria continues to make good progress in the sector. The new law has introduced liberalisation of all services except voice telephony and leased lines, which will be opened to competition on 1 January 2003. This is in advance of the WTO commitment of 1 January 2005.

Productivity of the main telephone company has increased only slightly in the 12 months to the end of 1998 and at 9.6 employees per 1000 lines is one of the lowest of candidates countries. This matter will need to be addressed if the company is to be competitive in the new liberalised environment.

Secondary legislation will need to be finalised in relation to interconnection, licensing, data protection, universal service arrangements and open network provision. Attention should be placed increasingly on effective implementation of legislation, preferably through a phased approach. Now that most of the issues in the policy document of 1998 have been implemented, it is suggested that the document be revised to cover the implementation aspects of the issues and tariff rebalancing.

In the postal sector, efforts should be sustained to ensure that the intended postal policy and legislation is completed.

Audiovisual

Significant progress has been made in alignment to the *acquis*. In November 1998, the Law on Radio and Television was adopted. Together with the Law on Telecommunications adopted in July 1998, it sets the common framework for the telecommunication and audiovisual sectors. In March 1999, Bulgaria ratified the Council of Europe Convention on Transfrontier Television.

Consequently the audiovisual legal framework is closely aligned with the consolidated Directive Television without Frontiers. Whilst administrative structures (the National Council for Radio and Television) are in place, there are concerns about capacity to monitor compliance, closely linked to the existing lack of budgetary resources.

Conclusion

There has been progress in all sectors which indicates that for the information society, research and technological development, education and audiovisual fields, Bulgaria should have little difficulty in taking on the *acquis*.

3.3. Economic and fiscal affairs

Economic and Monetary Union

Bulgaria has stated it accepts and will comply fully with EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Bulgaria has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Bulgaria has made no additional progress in its preparation for participation in the Economic and Monetary Union. However, its currency board arrangement assures the independence of the monetary authority and excludes direct financing of the public sector by the central bank. Under current legislation, the public sector also has no privileged access to financial institutions.

Compliance with the EMU *acquis* is conditional upon completion of the process of liberalisation of capital movements, which is examined under section on free movement of capital.

Taxation

Bulgaria's tax legislation has in the past been characterised by being relatively general and inconsistent in its application. However, several legislative amendments have been made over the years so as to improve the level of conformity with the EC tax *acquis*. In the past, the main efforts have been concentrated on the preparation of a more thorough reform of the country's VAT and excise systems.

The entry into force of Bulgaria's new VAT Act as of January 1999 has resulted in a much more coherent application. The new VAT Act conforms to a higher degree to the general principles of the Community VAT system.

As part of the tax reform Bulgaria's excise regime has undergone significant changes as of 1 January 1999. This has resulted in a change in the duty structure from the ad valorem element to specific duties as applied in the Community.

Conclusion

Bulgaria's new VAT and excise duty Acts have brought the country a significant step forward towards the Community tax acquis. Although further adjustments are still required in particular in the field of excises, Bulgaria continues to give the same level of high priority to taxation issues, it should be able to reach a satisfactory level of legislative alignment. However, some concerns remain as regards Bulgaria's capacity to operate and enforce its tax legislation and these issues should continue to receive special attention.

Statistics

Reform in this area has been launched. A bill amending the Statistical Act came into force in June 1999 which is broadly in compliance with EC legislation. The Act establishes a partially decentralised statistical system, with the emphasis on co-ordination between the National Statistical Institute (NSI) and the other bodies responsible for producing statistics. However, as yet effective mechanisms to determine the roles of the various statistics producers have not been developed in all sectors.

New regional divisions have been created this year and the priority is to produce macroeconomic and agricultural statistics at regional level. The basis for a business register has been created but considerable efforts will be required to improve quality and to develop detailed methodology. Significant efforts are being made to improve the quality of distributive trade and tourism statistics.

Major efforts are required in macroeconomic statistics. The lack of experienced staff and development of effective co-operation with other bodies must be addressed. Work has begun on household income and purchasing power statistics, but reliable financial accounts still need to be provided. For social statistics, efforts are required to upgrade the labour force survey to operate on a quarterly basis, and to provide information on earnings, education and health. Some progress has been achieved in the quality of statistics on road transport and transport by sea but must be improved and consolidated.

Progress is still needed on land use and farm structure statistics, especially data collection from small farms (more than two million). Attention should be paid to the agriculture census.

Despite progress made, statistical reporting by the NSI cannot yet be considered up to EU standards. Further adaptations to its working methods and methodology to the ongoing changes in the economy. Internationally comparable classifications have not yet been introduced. Additional work is needed to develop implementing regulations.

3.4. Sectoral Policies

Industry

Industrial policy continues to be based on the government's Bulgaria 2001 programme, which targets the attainment of sustainable economic growth, and the acceleration of privatisation and restructuring. It aims to improve framework conditions for industrial development and the competitiveness of enterprises, and to establish an environment conducive to the growth of small and medium-sized enterprises.

As regards horizontal developments concerning Bulgaria's industrial policy, main achievements relate to the improved competition law and the amendments to the privatisation law. However, significant efforts are still needed to establish a coherent industrial policy strategy in Bulgaria.

Concerning sectoral policy, the government adopted a Strategy for the development of Bulgarian high-tech industry in February 1999, aiming at the creation of a dynamic sector for manufacturing of high-tech products and services.

In order to create a more favourable legal environment and to improve the investment climate, the government adopted a mid-term Investment Programme for the period 1998-2001 concerning projects in the fields of telecommunication networks, roads and transport facilities, energy and construction.

As regards privatisation, Bulgaria has taken steps to accelerate the privatisation process by improving the institutional framework. However, due to the effects of the financial crises on other emerging markets but also the lack of an adequate legal framework, the privatisation results were slower than expected. Together with some effects of the situation in Russia and the Kosovo crisis on foreign investors' confidence, it would seem difficult to complete enterprise privatisation by the end of 1999 as planned.

As a follow-up to the privatisation process, corporate governance issues will have to be addressed. In addition, a strategy and new legislation needs to be developed to deal with enterprise liquidation in order to ensure efficient and transparent procedures.

In the steel sector, Bulgaria has made some progress in privatisation but it is still unclear how restructuring will be carried out. Privatisation of utility companies is running behind schedule. The privatisation process of the Telecommunication Company is ongoing, but energy utilities privatisation has barely started.

An important dimension of the industrial policy is the control of state aids (see competition).

Agriculture

Agricultural situation

Following the 1997 increase of around 30%, gross agricultural output declined by 6.2% in 1998. The agricultural sector accounted for 21.1% of GDP in 1998, which is a 19.5% decrease compared to 1997 (26.2%). Agricultural employment in 1998 represented 24.7% of the working population.

Production of most field crops fell as a result of both sown acreage and lower yields. The reduction of acreage occurred despite a 3.4% increase in crop prices, while yields were affected by a renewed price-cost squeeze making the cost of fertilisers prohibitive for many farmers. Improved meat prices caused livestock farmers to purchase new animal stock.

The appreciation of the real exchange rate in relation to other currencies than the DM and later the Euro, dampened the recovery of exports and trade became more focused on EU countries. In 1998 bilateral trade of agricultural and food products continued to increase. EU exports rose from €193 million in 1997 to €245 million in 1998 but Bulgarian exports rose only very modestly from €234 million to €236 million while total exports fell. As a result, the Community's trade balance which had been negative for two years (- €50 million in 1996 and - €41 million in 1998) showed a slight surplus of €9 million in 1998. Agricultural and food products represent 8.4 % of total Bulgarian exports and 5.3 % of imports.

Due to a risk of foot-and-mouth disease, import of live animals to the EU is banned from a 20-km border zone with Turkey, together with a ban on milk and milk-based products. Bulgaria is not authorised to export pork meat to the EU.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance the progressive and orderly liberalisation of bilateral trade.

Agricultural policy

Progress has been achieved regarding land restitution. According to the Bulgarian authorities, by the end of May 1999, 85.4% of the agricultural land was restituted to its previous owners. Only 24% of the land is covered by notary deeds; however the amendment to the Land Ownership and Land Utilisation Act will further accelerate the process. It institutes a simplified procedure for acquiring legal title by considering that the decisions of the Agrarian Commission for Land restitution and the sketch of the plot are equal to a notary deed. By these amendments, the land is therefore returned with a property document. The government's intention is to finalise the restitution of agricultural land by end 1999. The process of restituting forestland is less advanced.

An amendment was made to the Land Lease Act in April 1999 simplifying the procedure and removing some of the constraints. This has contributed to longer lease agreements being signed. In addition, under the law on foreign investment, purchasing of agricultural land by foreigners is legally possible if they are registered as legal persons in Bulgaria.

The trend toward increased private ownership throughout the food chain continued. The privatisation of State owned farms is now largely completed. According to the National Statistical Institute, by 1 July 1999, agricultural farms and co-operatives cultivated over 96.2 % of the arable land. Privatisation of the food industry is also progressing well.

For domestic support, controls on domestic farm gate prices were removed in August 1998 establishing effectively liberalised markets for most products, the main exception to this pattern being tobacco.

The State Fund for Agriculture has opened preferential credit lines for supporting agricultural producers, mainly for production of wheat, maize, sunflower and sugar beet. Most of the

support is granted under the form of short-term credit paid directly to farmers and repayable at harvest time. A programme that enables farmers to buy fertilisers at subsidised prices was discontinued, but farmers remain exempt from profit tax and are not obliged to pay VAT on equipment purchases. Duties on imports of pesticides, agricultural machinery and other farm inputs were reduced.

A National Grain Service (NGS) was established to oversee a new grain storage and trading system. Registered farmers may deposit grain in a licensed public Storage facility against delivery of a tradable receipt. These receipts may be used as collateral for receiving short-term credit. The rules regulating the functions of the NGS relate to the control on the licensed grain stores, registered grain traders, registry keeping and grain quality control.

The liberalisation of trade policy continued in 1998. Export taxes were abolished for all products except live animals, sunflowers and sunflower oil. The requirement that all agricultural products intended for export be licensed has been cancelled. Exports are now registered for statistical purposes only.

The organisation and structure of the Bulgarian National *Veterinary* Services are adequate and function satisfactorily. Significant progress has been achieved in the transposition of EU legislation into national legislation, however, many of the new acts are not fully implemented (e.g. quality standards, animal welfare aspects). Improvement of border control at border inspection points (BIPs) and along “green borders” to prevent penetration of contagious diseases is still a concern. 8 BIPs need upgrading in order to comply with EU standards. Since 1998, the NVS has started implementing a multi-annual programme for animal identification and registration, including the adoption of the supporting legislation, animal tagging and introduction of a veterinary information system.

Little progress has been made in upgrading of slaughterhouses, rendering and food processing plants to meet EU standards (construction, operation, hygiene requirements, animal welfare etc.).

The National Service for Plant Protection, Quarantine and Agro-chemistry at the Ministry of Agriculture, Forestry and Agrarian Reform has started to implement a multi-annual programme for harmonisation of legislation on *phytosanitary* control, including border control, production control and diagnostic activities.

Legislation on quality inspection of fruit and vegetables in compliance with the EU requirements was adopted.

The approximation of the EU *acquis* and its implementation for the wine sector is conditional for further negotiations on EU concessions for wine and spirits. A Law on Wines and Spirits was adopted in July 1999. It introduces a new system for the differentiation of the categories of wine, a classification of vine varieties, rules for oenological processes and the setting up of new administrative and control structures.

A Task Force for the management of pre-accession funds (SAPARD) has been set up in the Ministry of Agriculture, Forestry and Agrarian Reform. The first version of the National *Rural* Development Plan has been prepared and presented for public discussion. The State Fund for agriculture has been identified by the Bulgarian authorities as the future paying agency for SAPARD.

Conclusion

Bulgaria has made some progress in terms of the approximation of legislation, however difficulties remain regarding implementation, basically due to lack of funding. Bulgaria's agricultural markets continue to suffer from weak demand, low commodity prices and under-investment. Progress in relation to land legislation will slowly contribute to create a better environment for investment in agriculture. Further liberalisation of the agriculture sector policy is necessary.

Animal identification and registration need to be completed and border control needs to be improved. Hygiene in slaughterhouses, rendering and processing plants needs to be upgraded to EU standards to permit export to the EU. Veterinary inspection services need to be reinforced and veterinary laboratories and plant quality control laboratories need to be properly equipped. An effective animal welfare policy needs to be developed.

The process of land restitution has progressed but further steps need to be taken before there is an active and transparent land market, including a unified cadastre and registration agency.

The methods for the preparation of agricultural statistics must be aligned to EU standards. The first operational steps to prepare for introduction of structural funds have been taken and preparation of the planning instruments is well under way. However, further legal, institutional and operational work is needed, in particular on financial monitoring aspects.

Fisheries

Fisheries (ocean and fresh water) are estimated to account for under 0.05% of GDP in 1997-8. The privatisation process in the fishery sector is underway. The two companies of fishing vessels on the Black Sea are currently under liquidation. On the Black Sea, there are 6 transportation and storage boats, and currently over 1,500 licensed open boats, and 61 registered fishing vessels. On the Black Sea, 95% of the fishing vessels and 100% of the open boats are privatised. On the Danube, there are over 1,800 registered vessels, mostly privatised. Overall, on fresh water, 70% of the boats are private.

Bulgaria has taken some first steps in fisheries policy. It has prepared a law on Fisheries and Aquaculture, which is expected to enter into force in year 2000. It creates the legal framework for the implementation of measures for monitoring fishing activities, inspection of fishing vessels, licensing of fishermen and fishing vessels, collection and processing of statistical data, conservation and reproduction of fish resources and creation of producer's associations. Bulgaria has signed most UN agreements and conventions relating to the fishery sector and ratified some of them.

Quality of fishery products is controlled an Ordinance on quality and hygiene for trading and processing of fish products and is verified by the National Veterinary Service. There is currently no state aid for the improvement of transport and storage conditions in the fishery sector and there are no market interventions in Bulgaria, and no EU type producers organisations, however these are foreseen in the draft Fisheries and Aquaculture Act. The government is planning to finance the construction of wholesale markets under SAPARD.

The Maritime Administration of the Ministry of Transport, in charge of registration of boats and control of navigation, and the State Shipping Inspectorate, responsible for registration and verification as well as the fleet registration system needs to be modernised and to benefit from technical upgrading in order to comply with EU standards.

Energy

Energy policy

Bulgaria's "Strategy for the development of the energy sector until 2010" was approved by the Parliament in March 1999, in line with the short term priority of the Accession Partnership. It has a stated objective of meeting the requirements of accession, but is based on a continuous growth in energy production, which does not appear realistic. A Law on Energy and Energy Efficiency was adopted by the Parliament in July. Secondary legislation will be introduced for specific sub-sectors. Importance will have to be given to the implementation of the energy law, for which the regulatory authority will play a major role. It is vital that this authority be given the means to work effectively.

The first phase (until 2001) of Bulgaria's energy strategy, although focusing very much on the power sector, provides a good basis for the sector's reform, aiming, inter alia, to decrease monopolies and the role of the state in the sector, and to restructure the electricity and gas industries. However, the Energy Law will need to be complemented in order to conform itself with the electricity and gas directives: it does not yet include provisions for access to networks and market opening. The model envisaged for the electricity sector would be that of the single buyer. The state will continue to regulate power prices for buying / selling to producers and distributors. Natural gas prices will continue to be regulated, given the sector's natural monopoly.

There are still some state aids directed to thermal power plants and to the coal sector. However, these will be reduced and removed during the 'transitional period' (from 1998 – 2001). The Regulatory Authority will have responsibility for setting Energy prices, according to the Energy Law. All prices will be liberalised, and price-fixing ended by the year 2001, by which time cross-subsidies will be eliminated.

Data concerning the level of oil stocks is still considered a state secret, even if the legal framework for adopting the EU *acquis* is being prepared. Before the end of the year, decisions regarding the timetable and financing required for constituting the necessary oil stocks (including the administrative framework) will be taken.

The energy strategy intends to stabilise the solid fuels sector and to reduce subsidies. Production subsidies will be maintained until 2001.

A chapter in the Law on Energy and Energy Efficiency covers energy efficiency. There will be also a specific energy efficiency law. These, as well as planned secondary legislation, take over all the provisions of EU Directives (norms, standards, audits etc.), including minimum efficiency standards.

Nuclear energy

The Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed the importance of this issue in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries. The present section is a response to this request.

Bulgaria has four VVER 440/230 reactors and two VVER 1000 reactors, all of which are of Soviet design and located at the Kozloduy NPP (*K 1-4 and K 5-6, respectively*). Nuclear power plants provide more than 40% of the country's electricity production..

The Nuclear Safety Account Agreement (NSAA), signed by Bulgaria in 1993, foresees the early closure reactors K 1-4 representing the highest safety risk. The closures of these units were subject to certain conditions, initially foreseen to be fulfilled by 1997/1998. The fulfilment of these conditions has been delayed, for reasons largely due to the slowness of the energy sector reform in the country.

In Agenda 2000 of July 1997, the Commission called upon the candidates countries operating non upgradeable reactors to close them at the earliest practicable dates. For Bulgaria, considering that the original timing had slipped, it took the view that K 1-2 could close in 2001 and K 3-4 in 2001/2002.

In November 1997, the Bulgarian Government requested the revision of the NSAA, suggesting operation of K 1-4 "till the end of their economically justified life". On this basis, the long-term energy strategy adopted by the Bulgarian Government in September 1998, and whose principles were approved by the Bulgarian National Assembly in March 1999, foresees the closure of K 1-2 in 2005 and of K 3-4 after 2010.

These dates are not in line with Bulgaria's international commitments in the NSAA or with Agenda 2000. The Accession Partnership for Bulgaria (March 1998) required, as a short-term priority, the establishment of realistic closure commitments according to the NSAA. In its first Regular Report and in its Composite Paper (November 1998), the Commission repeated this request and expressed its concern over the absence of a specific closure programme.

In December 1998 the Council emphasised that, for the countries which operate reactors which cannot be upgraded to internationally acceptable levels of safety at a reasonable cost, the energy sector strategies must provide for the earliest practicable closure of those reactors, including an agreed timetable for closure consistent with Accession Partnership priorities and the NSAA. In March 1999, the European Parliament called on Bulgaria to comply with its commitment under the NSAA for the conditional closure of K1-4. A similar approach has been adopted by the NSA Contributors.

The Commission has declared its willingness to assist Bulgaria in the early closure of K 1-4, both technically and financially. It is considering the granting of a Euratom loan for the modernisation, including safety upgrading, of K5-6, which is a key element in the NSAA conditionality. It would also consider substantial multi-annual Phare grant assistance to Bulgaria's energy sector, over and above the national allocation. However, further assistance to the nuclear plans, including the Euratom loan, will be conditioned upon agreement for the closure of the older units.

The Commission position on K 1-4 fully takes into account Bulgaria's future electricity needs, based on realistic demand forecasts. It also takes into account that Bulgaria, as a future member of the EU, must develop its energy sector on the sound basis of security of supply, competitiveness, including the principles of the internal energy market, environmental considerations and energy efficiency. The Commission and other international donors can assist Bulgaria in pursuing this goal.

In March 1999 the Commission and the Bulgarian Government agreed to set up a Joint Working Group (JWG) to prepare the ground for an agreement on a realistic timetable for the closure and decommissioning of K 1-4, consistent with Bulgaria's international obligations, as well as on possible accompanying measures related to economic, environmental and financial implications of the closures. Both parties acknowledged the validity of the NSAA, which was not being renegotiated. The JWG held three meetings in May, June and September 1999, during which a useful exchange of information and mutual clarification of positions took place. However, progress made towards an agreement is insufficient.

The Bulgarian Nuclear Safety Authority still lacks the required number of staff to follow its duties properly, though its strengthening is presently envisaged in both staff and budgetary terms. Real earnings have been increased, but the low level of remuneration still poses obstacles to retaining or engaging competent staff. The planned restructuring of the nuclear safety authority would also separate the functions of control and promotion of the use of nuclear power. Two funds (on safe storage of radioactive waste and on decommissioning) were established in January 1999 and are financed from the proceeds of the Kozloduy NPP production.

Bulgaria signed the Joint Convention on the safety of spent fuel and radioactive waste management in September 1998. A national strategy on waste and spent fuel is to be presented to the Council of Ministers.

Bulgaria has to step up its efforts to attain current prevailing regulatory and safety practices in the Union and its nuclear regulatory authorities and nuclear operators are invited to provide regular and comprehensive information on the ongoing upgrading programs. Preparatory work for decommissioning of K 1-4 – overall planning and licensing work – should start in the immediate future.

In the area of control of nuclear materials, Bulgaria indicated that, upon accession, it will fully implement the Euratom safeguards *acquis*. The early signing by Bulgaria of an additional protocol to its nuclear safeguards agreement with the IAEA is to be noted.

The attention of Bulgaria is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the emphasis put by the Council on the need to develop further methods relevant to the realisation of a high level of nuclear safety. In this context, Bulgaria, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

Conclusion

Although Bulgaria has made important progress in the energy sector, it needs to maintain and even step up considerably its efforts to prepare for integration. The following issues need

close attention: effective implementation of the energy law, adoption and implementation of subsequent sectoral laws and reform plans (including the establishment of the regulatory authority and granting it the means for effective operation, thus contributing to developing an appropriate and efficient mechanism for regulation as required under the Gas and Electricity Directives) in order to adapt to the internal energy market; maintaining the timetables for price and tariff structure reform and reducing state interventions (particularly in the solid fuel sector), emergency preparedness (including the constitution of mandatory oil stocks), improving energy efficiency and fuel qualities, maintaining timetables for restructuring the solid fuel sector.

In the nuclear area, Bulgaria has made insufficient progress in adopting and implementing a realistic timetable and plan for the closure and decommissioning of units 1 – 4 of Kozloduy NPP, in line with its international commitments, and has maintained closure dates for these units that are too distant. Bulgaria has thus not respected an Accession Partnership priority.

Transport

Bulgaria is on the traditional route from the Middle East to central and western Europe. Three pan-European transport corridors are identified as crossing its territory and a fourth is the Danube.

Bulgaria has taken some encouraging steps in the adoption of new transport legislation and administrative measures that address a wide range of institutional aspects in the application of the *acquis*.

As regards *road* transport, a new Road Traffic Law entered into force in September 1999 aiming at transposing Community requirements relating to road vehicles, roadworthiness tests and driving licences. A new institution, the Automobile Administration, has been established, in order to implement and monitor the Road Transport Law provisions. A reinforced State Automobile Inspectorate will ensure implementation of the Road Traffic Law. Further adjustments are still required to the system of road taxes and charges.

For *rail*, the phased plan for the restructuring of the National Railway Company BDZ is being implemented and will be completed by 2000.

As regards *maritime* transport, significant improvements are needed in order to make sure that safety rules particularly in respect of safety performance of vessels are fully applied. Data on safety performance of vessels shows a deterioration. The performance of the administration in terms of flag and port state control requires urgent attention. .

The new *Civil Aviation* Act entered into force in January 1999. Sixteen secondary legislation acts were adopted to implement different elements; as a result the legislative harmonisation process appears to have progressed satisfactorily. The new structure and functions of the Civil Aviation Administration were also adopted. However, Bulgaria still needs to reform its aviation organisation and infrastructure, to achieve the necessary administrative capacity, including making available additional financial and human resources.

Bulgaria formally applied for membership of the Joint Aviation Authorities in June 1999. Bulgaria has in the past year concentrated on the conclusion of the Agreement on a European

Common Aviation Area. The national carrier Balkan Air has just been sold to a private buyer.

Concerning transport *infrastructure*, the 1998-2000 Medium-Term National Investment Programme is being implemented, including in particular the Pan-European Corridors crossing Bulgarian territory. In this respect Bulgaria participates in the Trans-European Infrastructure Needs Assessment (TINA) and has identified priority projects with a view to ISPA financing. The issue of a second bridge across the Danube between Bulgaria and Romania has been under discussion for some time and is still open. Feasibility studies have been financed with Phare funds, but there is still no agreement between Bulgaria and Romania on the usefulness and the location of the bridge. Significant investments are needed to its road network and border-crossing infrastructure as much existing equipment, originating from the former Soviet Union, is non-standard or out of date.

An amendment to the Law on Taxes on Liquid Fuel adopted in June will increase the revenue of the National Fund for investment in the national road network. The current programme for the national road network is in progress.

Conclusion

Progress in implementing the *acquis* has been accelerated. Major efforts now need to be directed at ensuring the effective capacity of the administrative institutions to deal with the extensive range of implementing activities, particularly in maritime safety. To this end enforcement plans, together with an in-depth assessment of the resources and technical assistance required, have to be established.

Small and medium-sized enterprises

The SME sector in Bulgaria continues to develop progressively. Well over 90% of Bulgarian companies are SMEs. The major obstacles for the sustainable development of the Bulgarian SME sector remain the macro-economic environment, need to improve the legal, administrative and tax environment, and strengthen the support infrastructure for SMEs and develop access to finance. Whilst there have been positive policy developments in the past year, these remain priorities.

The Bulgarian Government has introduced a number of important measures. The Agency for SMEs (ASME) founded in July 1997 at the Ministry of Industry will be strengthened through an SME law adopted in September 1999, as the central governmental unit for the promotion and co-ordination of SME policy in Bulgaria. The Promotion Bank, a bank only lending to SMEs, has been created.

Bulgaria has participated in the Community's Third Multi-annual Programme for SMEs since December 1998.

Bulgaria needs to continue the development of SME policies to create a more favourable environment for SMEs (improve the taxation system, simplify the registration procedures, develop international networking etc). The national network of SMEs intermediaries need to be strengthened terms of the quality of services and advice (e.g. on business plans, management, partnerships, possibility of participating in international business events).

3.5. Employment and social cohesion

Employment and social affairs

Reported unemployed in Bulgaria was 13.3 % of the economically active population in April 1999, an increase of 1.8 percentage points compared to the same month in 1998. There is a slight increase in the share of long-term unemployed. Unemployment varies according to administrative region from 3.6% in Sofia City to 25.4% in Targoviste Region; rates range from over 20 % in five regions out of 28 regions and are about 40% in some of the rural and ethnically mixed regions.

In September 1998 Bulgaria signed the revised European Social Charter. Bulgaria initiated preparatory actions for its ratification involving the social partners and a large number of government institutions and NGOs.

As regards the *Labour Law*, the Unemployment Protection and Employment Promotion Act, covers some EU provisions. Together with two recently adopted Ordinances, additional provisions, but not all of the EU Working Time directive are transposed. With regard to labour market policy, administrative capacity remains insufficient, despite the fact that the Unemployment Protection and Employment Promotion Act has provided for additional passive and active labour market measures.

In parallel, a number of employment programmes are being implemented in the public sector; there are programmes for example to support job clubs, vocational training and business opportunities for women. A business start-up programme was launched at the beginning of 1999 to provide to training and financial assistance to the unemployed. Several programmes have also been started to support the most vulnerable groups in the labour market and enhance integration of groups which have suffered discrimination on the labour market (Roma, long-term unemployed).

Following the principle of the Charter for Social Partnership, social partners are increasingly involved in drafting legislation in the social sphere as well as in the joint annual analysis of the evaluation of the UPEPA. The *social dialogue* is one of the basic instruments used in the development and implementation of regional employment programmes and to this end Regional Employment Councils are being established. However, the social dialogue need to improved and more active, representative and autonomous employers and employees organisations need to be encouraged in particular in the context of on-going industrial restructuring. .

The principle of *equal treatment* is enshrined in the Bulgarian Constitution and other legal provisions, but there is only little evidence of measures taken for the practical enforcement of the principle in the employment sector.

As regards the Act on *Health and Safety* at Work, new legal texts were adopted. They include provisions on the structure and the activities of the General Labour Inspectorate, on the functions and tasks of the officials and specialised services in the enterprises engaged with the professional hazards protection and prophylactics, on the training of the representatives on

committees on working conditions, on the terms, conditions and regularity of risk assessment; on introduction of physiological regimes of work and rest and on the physiological norms and rules of manual handling of loads. However, considerable efforts concerning legislative alignment and institutional strengthening have to be made in order to comply with the *acquis*.

Following the *Health Insurance Act* of June 1998, the National Health Insurance Fund started to operate in March 1999 but further institutional strengthening is necessary.

In respect of the *social security* scheme, the Act on the Budget of the Social Security Fund, which entered into force in January 1999, introduced amendments and supplements to the legal framework. It also governs the application of social security schemes to employed and self-employed persons and their family members moving within the Community.

Legal and institutional reform is being launched in the area of social protection to ensure long-term financial sustainability of insurance, including legislation regulating voluntary and occupational pension funds. Rules on the application of the Social Assistance Act were adopted in November 1998, and an Ordinance on the structure and activity of the Inspectorate within the National Social Assistance Service was adopted in March 1999.

Conclusion

Bulgaria is still confronted with widespread poverty and the situation in the health sector requires an injection of resources. In view of this there is an understandable focus on programmes which alleviate the problems of citizens. Further alignment in particular in health and safety at work legislation as well as institutional strengthening is necessary and the social dialogue needs more active employers and unions at all levels, also with a view to information and consultation requirements of labour law directives.

Regional policy and cohesion

The Union supports the strengthening of economic and social cohesion, mainly through the Structural Funds. Bulgaria will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Starting from a low level of preparation, Bulgaria has registered some significant steps in preparing for the implementation of structural funds, in particular as regards the legal and institutional framework.

Bulgaria's regional GDP per capita in reference year 1995 equalled 28% of the EU average with variations between 25% in the Montana region and 34% in the Bourgas region.

A Law on Regional Development and a Law on the Administrative-Territorial Division of Bulgaria were adopted in early 1999.

The Law on Regional Development aims at establishing prerequisites for sustainable and balanced development of the different regions, reducing disparities in employment and income, carrying out regional and cross-border co-operation and European integration. It defines the National Development Plan and its relation with the regional development plan, and identifies regions to be covered by specific measures.

Following the law on the Administrative-Territorial Division of Bulgaria, 28 regions have been established. This law also defines the authority of regional administrations concerning the implementation of regional policy. In June 1999, the 28 Bulgarian regions were combined into 6 macro-regions in Bulgaria in line with regions designed in with accordance with EU methodology (NUTS II). Clarification will be needed between the political (NUTS III) level and the administrative (NUTS II) level in order to ensure smooth implementation.

Particular attention needs to be paid to budgetary provision, in particular as regards co-financing including multi-annual commitments. The Organic Budget Law needs to be amended in this regard.

Inter-ministerial co-ordination is ensured by the Central Co-ordination Unit in the Ministry of Regional Development and Public Works. The implementation capacity at national and regional level needs in general to be significantly reinforced.

Bulgaria only has limited experience in appraisal and evaluation procedures according to the structural funds regulations.

Conclusion

While Bulgaria has taken significant steps in establishing a basis for its regional policy, major progress is still needed to allow Bulgaria's full participation in EU structural policy, in particular as regards its budgetary and administrative capacity.

3.6. Quality of life and environment

Environment

Bulgaria has made further progress in adopting legal acts with a view to harmonising its legislation to the *acquis*. Strategic plans for implementation and enforcement have been developed, but have to be made operational. The Ministry of Environment and Water, which still lacks adequate staffing, needs to be restructured.

Concerning *horizontal legislation*, a new regulation on environmental impact assessment (EIA) has been adopted in 1998 but is not fully in compliance with the EU requirements. The capacity for preparation and evaluation of EIAs needs to be reinforced.

As regards *air quality* and *noise*, several regulations have been adopted in 1998 to transpose the EU *acquis*. The national air monitoring system has been established.

Progress in transposition and implementation has been made in *waste* sector and in the development of the capacity to implement the legislation, especially at the local level. Regulations on the requirements for sites for waste treatment installations, conditions for waste treatments, reporting for waste management activities, procedure for issuing permits for transit transportation of wastes, classification of wastes have been adopted.

The *Water Act*, adopted in July 1999, will introduce the requirements of the Water Framework Directive into Bulgarian legislation. Bulgaria ratified the Danube Convention in

March 1999. A National programme for construction of waste water treatment plants (1998-2002) has been developed, but still lacks procedural clarity.

As regards *industrial pollution control and risk management*, there has been little progress in transposition of legislation for hazardous substances emissions limit values in the air. A National Plan for limitation of the emissions of SO and Oz for combustion plants has been adopted.

Training on the permit regimes for some industrial sectors has been provided, however is not sufficient. The administrative capacity to implement the legislation should be further developed, and the industry should be consulted and informed.

For *radioactive waste*, management of spent fuel and radioactive waste at Kozloduy NPP and the BAS research reactor, as well as the remediation of sites contaminated by uranium mining activities should continue to be closely monitored. Management of spent sealed radioactive sources represents a serious threat to public health.

Preparatory work for decommissioning of Kozloduy Units 1-4 – overall planning and licensing – should start in the immediate future.

As regards *nature protection*, a new Law on Protected Areas and a National strategy for biodiversity has been adopted. The new law reinforces Directorates which manage 3 national parks. 120 additional staff were appointed in 1999 and new rules for the operation of the Directorates and interaction with other ministries have been set.

Bulgaria's still needs to adopt an environmental strategy on how EU legislation requirements will be implemented. One of the vital issues when implementing the environmental acquis is to have a good estimate of the related costs. Bulgaria has not yet established a detailed financing plan estimating the costs over time.

Conclusion

Progress has been made in the approximation of environmental legislation to the EU *acquis* and in meeting the Accession Partnership priority, however, further alignment is required in the areas of nature protection, water quality, industrial pollution, noise and chemicals. The capacity for the implementation of this legislation is however weak and needs to be addressed. Monitoring structures need to be modernised. The main difficulty in the environmental sector remains the lack of large-scale investments.

The overall strategy for the environment needs to be adopted and sectoral strategies need to be prepared for the identification of investment projects, in particular for ISPA. Sustainable development principles need to be integrated into the definition and implementation of other sectoral policies. Further progress should be made in the preparation of Environmental Impact Assessments and information to the public.

Consumer protection

Bulgaria has made significant progress in this sector. A Law on Consumer Protection and Trade Rules, which is a medium-term priority in the Bulgarian Accession Partnership, was adopted in March 1999 and secondary legislation is being prepared. The Bulgarian law introduces the essential elements of the *acquis*. The adoption of this law has given impetus to the establishment consumer associations in addition to the existing Federation of Consumers. Directives on Consumer Credit, Dangerous Imitations and Timesharing remain to be transposed.

In addition to the establishment of a National Council for Consumer policy pursuant to the new law, there is a particular need for efficient institutional structures to be set up at national as well as regional level to ensure the effective implementation and enforcement of this new legislation.

3.7 Justice and Home Affairs

The composite paper of November 1998 stressed that Bulgaria's progress should be highlighted in the area of justice and home affairs. The regular report noted in particular progress on the two short-term priorities of the accession partnership, combating organised crime and border management. It invited Bulgaria to pursue its efforts unremittingly to comply with the *acquis* and to supplement these with determined action to adopt legislation on asylum and foreign nationals and on staffing to achieve medium-term objectives.

Immigration/ Border controls

As regards immigration, following the adoption in 1997 of a strategy to combat illegal immigration, in December 1998 Bulgaria adopted and made enter into force a new law on foreigners which regulates the conditions of entry, stay and control of foreigners. Within this framework, it is still necessary to clarify the conditions applicable to family reunification. Another law which entered into force in April 1999 foresees the replacement, between now and March 2001, of Bulgarian identity documents by documents which cannot be forged. Means of detecting of forged documents are being installed gradually at the various border control points, as is the case with Sofia airport.

On 1 September 1999, Bulgaria introduced a visa requirement for nationals of Bosnia-Herzegovina and of Cuba and decided to extend this measure, from 1 November 1999, to the following states: Armenia, Azerbaijan, Kazakstan, Khirgistan, Uzbekistan, Tajikistan and Turkmenistan. But nationals of Belarus and of Moldova are still not required to possess a visa. Bulgaria should continue progressive alignment of visa legislation and practice with that of the EU.

Readmission agreements were signed with the Benelux countries (7/10/98), Hungary (11/11/98) and Norway (16/12/98). Therefore Bulgaria now has readmission agreements with 13 Member States of the Union as well as with Hungary, Norway, the Czech Republic, Poland, Slovakia, Slovenia and Switzerland. Such agreements remain to be concluded with the United Kingdom and Ireland.

Bulgaria must now concentrate on reinforcing its administrative capacities in order to be in a position to apply effectively legislation on immigration.

As regards border controls, Bulgaria is continuing the demilitarisation process: the number of conscripts employed in this sector went from 6013 at the beginning of 1999 to 5369 in September 1999. Conscripts are no longer assigned to green and blue borders; these border control posts being staffed exclusively by police officers. As it has done since October 1998, Bulgaria must continue improving infrastructure and equipment at Sofia airport. As a major part of the equipment used to check travel documents is obsolete, it does not make it possible to ensure rapid and effective controls.

Asylum

Bulgaria adopted a new law on refugees, which entered into force in August 1999. It has started to implement a training programme for police officers and other officials responsible for examination of asylum applications.

However, as the 1998 regular report mentioned, the new law is not in accordance with the Geneva Convention in particular because it gives the police too significant a role in the process of examining requests for asylum. The Bulgarian authorities need to rectify this point and to strengthen the role of the National Authority for Refugees and to make a more clear distinction between the competencies of the authority and those of the police force, particularly with regard to the examination of the requests for asylum. They need also to continue efforts as regards training, improving reception facilities, in particular at the main border control stations (e.g.: Sofia airport and Kapitan Andreevo, at the border with Turkey) and to strengthen the control of people who have received a final negative response to their request for asylum.

Police

Bulgaria is gradually deploying modern technical means of communication and of investigation: an automated dactyloscopic identification system has been established and a national laboratory and data bank containing genetic information on criminals are in the process of being created. These will contribute to prevention and detection of serious crimes. Moreover, the financial investigation office (against money laundering) recently became a correspondent of the Egmont Group, which allows for co-operation and exchange of information with a network of financial investigation services in the Union.

The legal bases relating to the operation of the police force are in place but there are some deficiencies in concrete implementation of these. For this reason, a unit charged with updating derived legislation has been set up within the police force. With regard to legislation against the trafficking of human beings, this covers from now on part of the problem but needs to be supplemented in order to comply with the acquis. The reform of the penal code which is underway will have to cover inter alia the criminalisation of the possession of child pornography and, in the field of the fight against organised crime, Bulgarian legislation will have to adapt to European Union standards concerning participation in a criminal group. The adoption of a law on personal data protection is essential to be able to take part in Europol. Close attention should be paid to new forms of crime, in particular computer crime; in order to achieve this objective, strengthening of capacities in research, collection of information and crime statistics and the enforcement of the law are necessary. Efforts to ensure the right equipment is available need to be pursued and strengthened.

Drugs

The law on the control of drugs and precursors was adopted in March 1999 and entered into force on 1 October 1999. Strengthening of regional co-operation is being pursued in order to provide an appropriate response to trafficking on the "Balkan route". Regional co-operation needs to be deepened and remain compatible with what is being done within the framework of the Union and in particular Europol. Moreover, efforts are necessary to improve the detection equipment of customs and police.

Figures on drug seizures are available. In 1999, preliminary figures indicate an increase in the number of seizures but decline in quantities seized but it is too early to evaluate these yet.

Judicial co-operation

In the field of *civil judicial co-operation*, in September 1999, Bulgaria ratified three Conventions: Convention of 15 November 1965 concerning the significance and notification abroad of legal and out of court measures in civil and commercial matters, the Convention of 18 March 1970 on obtaining the evidence abroad in civil and commercial matters and the Convention of 25 October 1980 facilitating international access to justice. In the field of civil judicial co-operation, Bulgarian legislation is therefore largely in line with European Union standards. In April 1999, Bulgaria became a full member of the Hague Conference on international private law, which should enable it to continue this alignment.

The adoption of a new civil code and of a new civil procedure code are necessary for complete alignment of Bulgarian law with the *acquis*. Moreover, actions begun with a view to accession to the Lugano Convention of 1988 and the Rome Convention of 1980 need to be pursued.

In the *criminal* field, a new regulation on extradition, the transfer of sentenced people and international mutual aid was inserted into the criminal procedure code. This makes possible the effective implementation of international legal co-operation on a contractual basis and according to the principle of reciprocity. With regard to criminal judicial co-operation, Bulgarian legislation is largely in line with European Union standards.

However, it remains necessary to reconsider the refusal of extradition of nationals in the spirit of the Convention of the European Union on Extradition and to continue efforts relating to the criminal responsibility of legal entities involved in corruption or organised crime.

With regard to the functioning of justice (see Chapter 1.1), significant efforts are still needed, in particular on the following points: recruitment of judges must be based on merit and procedures guaranteeing a high level of objectivity; both initial and further training must respond to the need for effectiveness, independence and high ethical standards; the guarantees of independence with respect to the executive and legislative powers must be strengthened.

Conclusion

Bulgaria made some significant progress in the field of justice and home affairs, through in particular reinforcement of the legislative framework in the majority of sectors. The clearest advances can be noted in the fields of immigration and justice. In contrast, progress in the fight against corruption appears more hesitant.

Beyond the improvements, which are still needed in the legal framework, Bulgaria must from now on develop the methods and ensure the human and material resources, which are essential for effective application of the acquis. It has therefore to make significant efforts to improve the quality of recruitment and of training, as well as infrastructure and equipment. Bulgaria has also to ensure that the authorities responsible for the application of the law develop a more democratic and transparent culture.

3.8. External Policies

Trade and international economic relations

Bulgaria has continued to liberalise its trade policy. Together with the new Customs Code, a new trade policy regulation entered into force reducing licensing requirements and abolishing all export quotas. Bulgaria still lacks a foreign trade strategy, despite the insufficient competitiveness of the Bulgarian products. The average customs tariff rate is 8.02 % since 1999 (nominal average rate duty) and continues to be higher than that of the EU.

Bulgaria continues to respect its obligations as a WTO member. The Fifth Protocol to the agreement concerning financial services entered into force in March 1999. In addition, Bulgaria has started preparations for an agreement on Information Technology Products within WTO.

In view of the forthcoming WTO new round negotiations, Bulgaria is working with the Commission towards an alignment of policies and positions. Bulgaria is also a signatory to the General Agreements on Trade in Services (GATS). The new WTO round will provide an opportunity for Bulgaria to align its level of commitments in this area progressively to the EC level.

Bulgaria grants duty-free treatment to imports of most commodities from developing countries and supports the WTO Comprehensive Programme for rendering technical assistance in trade with developing countries.

In January 1999, Bulgaria acceded to CEFTA. On the same date a Free Trade Agreement (FTA) with the Republic of Turkey entered into force, providing for full liberalisation of trade in industrial goods from 2002 and for the granting of mutual concessions in trade in agricultural goods.

Bulgaria is conducting negotiations for liberalisation of mutual trade with Lithuania and FYROM. It has concluded trade agreements with most Mediterranean countries, which provide for MFN treatment in mutual trade. Technical consultations towards the conclusion of FTAs were held with Morocco and Israel. With Cyprus and Malta, Bulgaria has concluded agreements in the field of trade, payments, transport, scientific and technological co-operation.

Development

Bulgaria has continued to maintain good relations with developing countries and has

frequently responded to requests for humanitarian aids. It has also taken part in initiatives of the international community for helping developing countries.

Customs

The new Bulgarian customs code and the implementing provisions, modelled on the acquis, entered into force in January 1999. The legislation is in large parts identical to the Community Customs Code and further amendments are foreseen to obtain full compliance. The new customs legislation gives the customs authorities the power to prevent, reveal and penalise customs offences. Instructions and manuals to assist customs officers in the implementation of the new code have been prepared. At the beginning of October 1998, training of customs inspectors in the new rules and procedures began.

Bulgaria has almost finalised work on the Integrated Customs Tariff. The Customs Tariff now includes the duty rates on the preferential tariff measures in the framework of the Generalised System of Preferences and other preferential tariffs. Bulgaria now applies the Single Administrative Document (SAD).

In March 1999, a law on control of narcotic substances and precursors was adopted for entry into force in October 1999. There has been no substantive progress in the building of the Integrated Customs Information System.

Bulgaria participates in the Pan-European system of Cumulation of origin, which has been applied since January 1999, although not all of the necessary agreements have been concluded.

Bulgaria carries out joint customs control at border crossing points with Romania and FYROM.

Conclusion

Bulgaria has made further substantial progress in the field of harmonisation of its customs legislation in the past year with the entry into force of the new Customs Code. Further efforts are needed in the areas of computerisation and the fight against corruption.

Common foreign and security policy

Bulgaria continues to orientate its foreign and security policy towards EU and NATO. It participates actively in the multilateral dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings on Political Directors', European Correspondents' and Working Group level. It has regularly aligned its positions with those of the EU and, whenever invited, aligned itself with the Union's statements, declarations and démarches including in the context of the UN and OSCE. Thus it aligned itself with the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia.

In the Kosovo crisis, in spite of divided public opinion, the Bulgarian government, with the approval of the National Assembly, supported the NATO operations and opened up its air space and territory to NATO forces. Bulgaria participates in KFOR with a transport platoon under Greek command and police observers. It has also contributed to SFOR in Bosnia-Herzegovina.

As an associate member of the WEU, it participates in the Multinational Advisory Police Corps in Albania. Bulgaria is a signatory of the agreement on the creation of a multinational peace-keeping force in South East Europe of September 1998

Bulgaria strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation, including as a member of the Central European Initiative (CEI) and the Black Sea Economic Co-operation (BSEC) and a participant in the South East European Co-operative Initiative (SECI), the Royaumont process, the South Eastern Europe Co-operation Process and, most recently, the Stability Pact for South East Europe. Relations with the Former Yugoslav Republic of Macedonia have been normalised in February 1999 and bilateral co-operation is being intensified. Good or excellent relations persist with Greece, Turkey and Romania, including in the framework of the trilateral processes Bulgaria-Greece-Romania and Bulgaria-Turkey-Romania.

3.9. Financial questions

Financial control

The improvement and strengthening of the financial control in Bulgaria is regarded as a crucial issue for the country to progress effectively in the EU-pre accession period.

As regards *external* control, the National Audit Office (NAO), the major development relates to the establishment of a four-year Strategic Development Plan and start of its implementation. To improve the NAO's future effectiveness, clear procedures for parliamentary supervision and follow-up of NAO reports, including follow up of funds by the NAO to the end-user, should be established. The relationship between NAO and SFC should be clarified. Extensive training and staff development will be required for the NAO to meet EU standards.

As regards *internal* control, the State Financial Control (SFC), there is a need to review, complete and where necessary, change the current legal and regulatory framework, including drafting appropriate secondary legislation to the organic budget law and analysing the ways and means to introduce ex-ante financial control over commitments and payments, define the set-up and prepare the necessary legal material. Furthermore, there is an urgent need to improve and develop the organisation and methodologies of the existing control bodies. This includes carrying out the review of the SFC and of sample ministerial control units, defining the outline plan for further steps to be taken, namely in the field of training and providing training and information about the EU financial control requirements.

Conclusion

Financial control in Bulgaria is not yet in line with good practice in EU Member States, in particular in view of managing EU funds and resources. Priority should be given to review the

legal setting of financial control, the functioning of internal audit bodies and procedures for prevention, detection and correction of irregularities. The roles and responsibilities of the internal and external control bodies should be clearly defined to avoid overlap of activities.

External audit partially meets the requirements of Auditing Standards/EU Guidelines for adequate audit of public funds and expenditure. However, as a new institution, the NAO has produced results over a short period of time in a particularly difficult environment. The National Audit Office should implement its strategy plan with priority to strengthening its institutional position and its capacity to perform financial audit.

3.10 General evaluation

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

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

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

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

The adoption of a Civil Service law is a welcome indication that the government intends to pursue its efforts to strengthen administrative capacity. Important progress has been made in establishing the legal framework for setting up the institutions responsible for the application of EU legislation and many of the necessary structures have been set up. However, the

shortage of human and financial resources has hampered the capacity of these institutions to effectively implement the acquis. It is important that progress be made in setting up financial control mechanisms and transparent public procurement systems, particularly with a view to absorbing increased EU financial resources. Bulgaria needs to sustain progress in improving border management. The overall pace of transposition has improved but this will increase the challenge of effective implementation for the administration and it is too early to assess whether there will be a corresponding increase in capacity.

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

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that:

“Bulgaria's capacity to implement and enforce the *acquis* is still weak. Important first steps have been taken in general public administration reform and in the areas of anti-trust, indirect taxation and regional policy administration. Bulgaria has recognised the importance of taking action on justice and home affairs and a number of concrete steps have already been taken. There is an ongoing need to build up capacity to formulate and co-ordinate policy inside the administration, including in the area of EU affairs.”

4.1. Administrative structures

The Bulgarian government has continued over the past year to put in place the legal framework for the reform of the Bulgarian public administration. Following the adoption in 1998 of the Law on Public Administration, the Parliament also adopted the Law on Civil Servants which entered into force in August 1999.

In May 1999, the government adopted a classification of the positions in the administration and standards for the staff and the structures of ministries and state institutions. According to this, every Ministry has to define its directory (organigram) according to the new Classification. Some lay-off of staff in ministries is also foreseen. According to official figures given by the Minister for State Administration, 6500⁶ people work in the central state administration.

Administrative structures in Bulgaria remain weak and public institutions cannot attract and retain qualified staff. Both key laws should eventually provide a better legal framework but their implementation is slow. Furthermore, both laws fail to address a number of key issues indispensable for a modern and efficient administration such as creating working conditions and career opportunities, ensuring that public servants with appropriate knowledge and skills are recruited, developed and retained; the introduction of a mechanism to stimulate job rotation; the generally low level of salaries; assuring open competition for entering the civil service and the introduction and implementation of clear procedures and mechanisms for investigating maladministration and corruption.

4.2. Administrative and judicial capacity: key areas for the implementation of the *acquis*

The uniform application of EC law: The overall capacity of the Bulgarian administration and judicial system to ensure the uniform application of the *acquis* is still limited. The efforts of the administration have been directed so far towards the preparation of legislation whereas sufficient preparation of implementing structures and trained officials only exist in a limited number of areas. The overall capacity of the judicial system to apply the *acquis* is very limited. Only a few judges have been trained on aspects of the *acquis* so far. It also remains unclear if the present number of judges ($\pm 1,400$) is sufficient to ensure uniform application.

Pursuant to Article 3 of the Judicial System Act the Courts (total number of staff : 1534) in the Republic of Bulgaria are regional courts, district courts, courts-martial, courts of appeal, Supreme Administrative Court and Supreme Court of Cassation. The number, the territorial limits of the courts' jurisdictions, and the seats of the regional courts, district courts, courts-martial and courts of appeal are determined by the Supreme Judicial Council. The establishment of extraordinary courts is not allowed. Specialised courts may be set up by an act of Parliament.

The jurisdiction of the Regional Court as first instance comprises all cases with the exception of those which fall under another court's jurisdiction by law. The District Court hears as a court of first instance, civil and criminal cases specified by law. The district court hears, as an intermediate appellate instance, cases brought on the basis of appeals and protests against judicial acts of the regional courts. The district court also hears cases assigned to it by law. The Court of Appeal hears the cases brought on the basis of appeals and protests against the first-instance acts of the district courts within its jurisdiction. The rulings of the district courts under the Administrative Procedures Act shall not be subject to appeal before the court of appeal. The court-martial of appeal hears the cases brought on the basis of appeals and protests against the acts of the courts-martial throughout the country. The Supreme Court of

⁶ Last year the figure of 5769 people working in the central administration was officially communicated. It should be noted however, that in Bulgaria there is no definition of civil servant.

Cassation (number of staff: 83) is the supreme judicial instance on criminal and civil cases. It exercises the supreme judicial supervision on the precise and equal application of the laws by all courts hearing the before-mentioned cases. Its jurisdiction covers the entire territory of the Republic of Bulgaria.

The Supreme Administrative Court (number of staff: 55) Act was adopted in December 1997 that regulates the proceedings of administrative cases under the jurisdiction of the Supreme Administrative Court. This court exercises supreme supervision on the strict and equal law enforcement in the administration of justice on administrative cases and pronounces itself on disputes on the legality of acts by the Council of Ministers and Ministers as well as on other acts specified in the law.

The structure of the Prosecutor's Office (number of staff 822) corresponds to the structure of the courts. The prosecutors in the Republic of Bulgaria comprises: the Chief Prosecutor, the Chief Prosecutor's Office of Cassation, the Chief Administrative Prosecutor's Office, appellate prosecutor's offices, martial- appellate prosecutor's offices, district prosecutor's offices, martial-district prosecutor's offices and regional prosecutor's offices. The body of prosecutors are headed by the Chief Prosecutor, who is assisted in his activities by the Deputy Chief Prosecutors of the Chief Prosecutor's Office of Cassation and the Chief Administrative Prosecutor's Office. The prosecutor's office is unified and centralised.

There is an investigation service (total number of staff: 903) at each district court. There is established a Special Investigation Service (number of staff: 91) which shall in such circumstances as may be prescribed by law conduct investigations in cases of particular factual or legal complexity within the national territory, as well as in cases of crimes committed abroad or in such cases as are commenced in pursuance of legal assistance agreements with other countries.

The judiciary is managed by the Supreme Judicial Council, a part of which is elected by the National Assembly while the other by general meetings of the courts, the prosecutor's office and the investigation services. The Chairman of the Supreme Court of Cassation, the Chairman of the Supreme Administrative Court, and the Chief Prosecutor are members of the Supreme Judicial Council *ex officio*. The sittings of the Supreme Judicial Council are chaired by the Minister of Justice and European Legal Integration who has no right of voting when taking decisions. The Minister may only express opinions and make proposals for appointment of magistrates and for institution of disciplinary proceedings. With the last amendments of the Judicial System Act, the structure of the prosecutor's office and the investigation services have been put in line with the requirements of the Constitution.

An Inspectorate has been set up within the Ministry of Justice and European Legal Integration and its task is to control the good organisation of the administrative activities of the district, regional and appellate courts, prosecutor's offices and investigation services and the institution and the progress of the cases in these institutions.

The Magistrate Training Centre was established and registered as a non-governmental, not-for-profit organisation (foundation) under Bulgarian law in April 1999. The Centre is located in Sofia. The Magistrate Training Centre was created for the purpose of improving the professionalism of magistrates by providing training to judges, prosecutors and investigators. The long-term objective of the Centre is to create a qualifications system for magistrates,

provide training to magistrates and court personnel, promote and disseminate legal information in the areas of international, European and comparative law, publications in law and other activities relating to improved professionalism.

Single Market: There is at present no central *Public Procurement* Office but the new Law on Public Procurement provides for implementation by the National Audit Office and State Financial Control bodies. The majority of the procurement transactions appear to be undertaken through non-open tendering procedures, which may allow corruption to occur. Transparency and openness, which are prerequisites for a modern public procurement system, are lacking. The competitive situation in Bulgaria on public sector contracts is unclear since no institution keeps records of how many bids are received for each tender. There is a strong need to strengthen the public procurement system at the operational level in order to ensure uniform and open procurement practices and promote competition.

The Ministry of Culture is responsible for questions on copyright and neighbouring rights and the supervision of Collective Societies. A Council for the Protection of Copyright and related rights with the Council of Ministers was set up also in view of overcoming the problem with the unlawful use of *intellectual property*.

The current implementing capacity of the relevant institutions in the field is insufficient to ensure the timely adoption of necessary legal measures and their proper and swift enforcement thereafter. In order to ensure the proper enforcement of the *acquis*, especially with regard to jurisdictional competence, enforcement of foreign judgements and the protection of industrial and intellectual property rights, it is necessary to adapt the judicial system and to strengthen the courts. Training in intellectual and industrial property rights should be provided to judges, prosecutors, lawyers, etc.

The main infrastructures dealing with *industrial property* rights are the Patent Office and the legal authorities in cases of appeal. The Sofia City Court is the competent authority for settlement of disputes. The competencies of the Patent Office in dealing with industrial property protection need to be enlarged and enhanced.

The Patent Office, the national state authority for legal protection of industrial property objects, is mainly responsible for the examination, granting and registration of patents. It is a self-financing budgetary organisation with small state contribution to cover fully expenses. It has 209 staff. The Patent Office has requested a permission to increase its staff by 5 more experts in order to deal with the administrative penal liability as well as a number of additional legal experts. Apart from the general need for training to allow the staff to properly implement the *acquis*, there is a specific need for TA from Europatent for the implementation of TRIPs.

The Legal European Integration department of the Ministry of Justice is responsible for *accounting* and *company law*. The Institute of Certified Accountants is an autonomous legal entity with obligatory membership for all persons approved to conduct statutory audits. There are approximately 400 certified accountants. Statutory audits should only be carried out by persons approved by the competent national authorities.

The Ministry of Finance, in consultation with the Institute of Certified Accountants, issues accounting and auditing standards which are largely based on international accounting

standards (IAS) and international standards on auditing (ISAs), issued by the international federation of accountancy bodies (IFAC).

Registration of enterprises is the task of the 28 District Courts. At present there are 88 judges at the District courts. Companies are registered at the districts where their seats are. Although a Commercial Register exists and information about companies (such as identification numbers, name, seat, address of the place of registration) can be accessed through the Statistical Office, the EU standards in the field require the establishment of a centralised register for undertakings which is still missing.

The institutional framework for the enforcement of the Framework directive and Council of Europe Convention on personal data protection 108 on *data protection* is still not in place and Bulgaria still has to ratify the convention. A supervisory authority responsible for monitoring the correct application of the Data Protection provisions has still to be established. This body should be vested with investigative powers, as well as effective powers of intervention and powers to engage in legal proceedings where national provisions have been violated. This supervisory authority has to hear claims by any person in regard to the processing of personal data. It should draw up a public report on its activities regularly.

In the field of *free movement of goods* much institutional progress remains to be accomplished in order to assure the establishment of an adequate infrastructure for the alignment with and implementation of the *acquis*.

The Institute for Standardisation is subject to restructuring, pursuant to the new law on national standardisation. It has 87 staff at present). After the restructuring following the entry into force of the standardisation law on 15 September 1999, the number of staff will increase slightly. The Directorate is responsible for the standardisation programme and its implementation, its monitoring as well as the training of specialists.

The National Centre for Metrology was established as a legal entity by the law on measurements which entered into force on 1 September 1999. It has 124 people. Its main tasks are to establish and improve the system of national measurement standards, and approve, register and inspect measuring instruments.

The Bulgarian Accreditation Service (BAS) at the Committee for Standardisation and Metrology (CSM) was established on 15 October 1998 and has 15 staff. Its main tasks are testing of laboratories, legal entities for product quality systems certifications and inspections. The body has been strengthened recently through training of staff and the establishment of accreditation procedures for laboratories.

The National Enquiry Point on technical norms, standards and procedures for conformity assessment was established as a unit within the CSM and has 3 people. It has no separate budget.

All of these bodies need institutional strengthening, upgrading of equipment, training of staff and a general increase in resources. Taking into account the recent establishment of most of the bodies in this field it is premature to provide an assessment of their functioning. At this stage, no national standardisation body meets the requirements of CEN and CENELEC.

The institutional capacity in the field of *free movement of persons* is still in its initial stage of development. Administrative training should be undertaken as well as preparation for the joining of the EU's system of mutual recognition of professional qualifications and aligning to the minimal training requirements set out by sectoral Directives. A Bill adopted in 1999 foresees the creation of an integrated administrative authority. This body should enforce the compliance with the requirements mentioned above, should certify the professional qualifications of its nationals and handle the requests for professional recognition by non nationals. With regard to the regulation of activities in the field of social security schemes, a unified social security administration will be set up.

As regards credit institutions *banking* supervision is established on the basis of the Law on Bulgarian National Bank and the Banking Law. The Bulgarian National Bank Law states that the supervision of the banking system shall be exercised by the Deputy Governor heading the Banking Supervision Department. The Banking Supervision Department is in charge of licensing of institutions to carry out banking activities and the issuing of Ordinances for the implementation of the Banking Law where all liquidity, adequacy and other requirements are stipulated. 80 persons work for the Banking Supervision Department. There is also a Supervisory-Administrative Unit under the Banking Supervision Department which produces legal opinions and co-ordinates the issuing of all BNB administrative acts related to supervision. Under the current legislation BNB monitors and controls all banks and Financial and brokerage houses. The latter, however are subject not to licensing but to registration only.

The supervisory system in the *insurance* area consist of two authorities: the National Council on Insurance established with the Council of Ministers) and the Insurance Supervision Directorate – a structure with the Ministry of Finance whose Director is appointed by the Prime Minister. The National Council on Insurance consists of 7 persons and is chaired by the Minister of Finance. The Insurance Supervision Directorate's staff is 33 persons. Their administrative capacity is considered to be adequate. The number of insurance companies operating in Bulgaria has decreased from about 120 in 1998 to 26 at the end of 1999 as a result of the increased prudential requirement, the re-licensing process completed in 1998 and the consolidation of the sector. Although the most important insurance legislation seems to be in place, difficulties remain due to insufficient expertise of the personnel.

The *Securities* and Stock Exchanges Commission is the state authority which supervises the security market including the admission of securities to official listings. It has the power to grant and revoke licenses and certificates and approvals, imposes compulsory administrative measures and penalty payments. The number of staff is 135 people. Although the most important securities legislation seems to be in place, there is a general problem of its application due to insufficient expertise of the personnel of the Securities Commission.

Competition: The Commission for the Protection of Competition (CPC) is the national authority in charge of the enforcement of anti-trust rules. The total number of staff at the CPC is 83, among which 39 Investigation and Case-Handling officers. Although the number of staff seems to be sufficient, training remains a priority.

The Ministry of Finance (Department of State Aids) is the national *State Aids* Monitoring Authority. While the Ministry of Finance has exclusive competencies in the monitoring of state aids, it co-operates with the Commission for the Protection of the Competition (CPC). However, a systematic assessment of the compatibility of state aids with the *acquis* does not yet exist.

Telecommunications: As required by the Telecommunications Law of 1998, the Committee of Posts and Telecommunications (CPT) has been created to deal with policy making as well as the development of the information society. The State Telecommunications Commission (STC) has been established to act as the independent national regulatory authority and the Radio Frequency Spectrum Council has been established to be responsible for spectrum policy. CPT has 90 employees and the STC 215 employees, a level of staffing which seems appropriate but which will need to be reviewed in the light of experience. These bodies will all need further institutional strengthening and development.

A national regulator for the postal sector has not yet been created but is foreseen.

Audiovisual services: There are two regulatory bodies in the audiovisual sector: the State Telecommunication Commission (STC) and the National Council for Radio and Television (NCRT). The STC is an administrative body dealing with radio and television broadcasting technical support and entrusted with radio and television activity licensing. The National Council for Radio and Television (NCRT) is the implementing body under the Law on Radio and Television. The NCRT is an independent specialised body, constituted to defend the independence of radio and TV operators and to meet the public interest. The NCRT has 9 members and 13 administrative staff. The NCRT exercises control over the implementation of the Law, takes decision on licenses for radio and TV operators (issuing, amendments, repeal), makes decisions on imposing administrative sanctions and fines.

The national Film Centre at the Ministry of Culture is in charge of the registration of producers and film distributors in the national Register. It grants and revokes licenses and certificates to producers and film distributors. It has 15 employees.

The relevant bodies (Ministry of Culture, National Council for Radio and Television) have a good understanding of the audiovisual *acquis* and the alignment requirements. However, the latter has not sufficient expertise in monitoring of compliance with the law and sanctioning breaches of the law. It lacks both the technical and human resources to effectively monitor compliance with the law.

Taxation: The competent authority in the field is the Bulgarian Tax Administration – Indirect Taxation office at the Ministry of Finance. The number of chief tax experts is 700, of chief tax inspectors it is 4000 and of tax experts 8051. Parallel to making the legislative reform in the area of taxation, the General Tax Administration in Bulgaria has undertaken a structural reform. A new three-tier structure of the General Tax Administration was approved and commissioned based on a functional principle. However, the institutional capacity for the implementation of legal measures and for monitoring of the systems is limited.

Agriculture: At the core of the Ministry of Agriculture, Forestry and Agrarian Reform (MAFAR) structure is a relatively small central unit, numbering fewer than 260 staff in all and headed by the Minister. Specialised functions are carried out by a large number of subordinate bodies reporting to the Minister, including several very substantial organisations such as the National Veterinary Service (NVS, 3000 staff), the National Service for Animal Selection and Reproduction (1,130 staff) and the National Crop Protection Service (NCPS, 560 staff). The staff of these subordinate bodies (excluding those responsible for education) numbers nearly 7000.

The MAFAR needs to strengthen the capacity of its departments in order to implement its short-term legislative priorities related to the harmonisation of legislation with that of the EU and start the medium-term reforms, set out in the Accession Partnership and the National Programme for the Adoption of the *Acquis*, including the compliance with the Common Agricultural Policy requirements.

The National Service for Plant Protection, Quarantine and Agro-chemistry (NSPPQA) has been established in 1992 as a part of MAFAR. It provides phytosanitary control following the Plant Protection Act from 1997 and Ordinance No. 1 of the National Service for Plant Protection, Quarantine and Agro-chemistry for phytosanitary control.

A Directorate for Control of Fresh Fruit and Vegetables was created in 1998. The Directorate has been set up in order to comply with the requirement for each Member State to have a specialised body for control on the conformity of the fresh fruits and vegetables with the standards.

In general, in order to prepare effectively for EU accession, MAFAR needs to have in place: (a) staff with the necessary ability, experience, training and motivation; (b) adequate systems for planning and managing the work to be done; (c) sufficient financial resources to provide and sustain the staff and systems required. Although not politically easy, some departments should be downsized (for example the National Service for Animal Selection and Reproduction - 1,130 staff which could be in part privatised for what concerns artificial insemination), and other departments, more linked with the *acquis* and the CAP, strengthened (such as SAPARD, agro-statistics, market control, etc.). Extensive training and retraining should be also carried out for existing personnel on the new pieces of legislation being adopted. Administrative structures and control and inspection arrangements still appear to be inadequate to ensure the appropriate level of protection.

Fisheries: The State Fisheries Directorate of the Ministry of Agriculture, Forestry and Agrarian Reform (MAFAR) is the administrative body in charge of resource conservation. It is composed of a central office and regional representation in the main 5 ports in Bulgaria. The Inspectorate employs a total of 50 inspectors.

The Directorate General for Customs at the Ministry of Finance is in charge of the verification of the rules of origin. The Directorate issues certificates and protocols for trading.

Although some of the main institutions for monitoring and control are in place, Bulgaria's present administrative structures are still not able to cope with the requirements for a proper implementation of the *acquis*. For example the fleet registration system needs to be reformed, adequate equipment for control by the State Fisheries Inspectorate needs to be provided. The State Agriculture Fund (its local representation) is not sufficiently equipped to manage the state aid for the fisheries sector. Overall, the administrative and implementing structures for the fisheries sector exists but need to be better co-ordinated.

Energy: Both legislative and institutional reform in this sector are rudimentary although the reforms undertaken go in the right direction. The main administrative structures for monitoring of the security of supply, competitiveness and environmental protection, with some exceptions, are still missing.

The Committee for the Use of Atomic Energy for Peaceful Purposes is a public regulatory body which is in charge of all issues related to the licensing of nuclear installations. Its capacity is limited by lack of resources and its ability to retain qualified staff.

The State Energy Efficiency Agency (staff: 25 people) functioning under the Council of Ministers is in charge of promoting Energy Efficiency. The new Energy and Energy efficiency act, just approved provides for the institution of an independent State Energy Regulatory Committee. The Committee will issue permission for constructing production, distribution and transmission capacities in the electricity and gas sectors and regulate tariffs and contracts.

Transport: The enactment of the *Civil Aviation Act* provided for the establishment of Directorate General “Civil Aviation Administration”. The structure of CAA is in compliance with the requirements and recommendations of the International Civil Aviation Organisation (ICAO) and the European Civil Aviation Conference (ECAC).

The Directorate General “Air Traffic Service Authority” is a specialised civil administration. It is a complex structure, equipped with the appropriate facilities, technologies and highly qualified personnel ensuring safety, management and operation of air traffic.

The *Automobile Administration* will be established as of 1 January 2000. The total number of the employees will be about 500. Its functions will follow the provisions of the Road Transport Law and the Road Traffic Law and will be directly related to the control of implementation of the requirements for access to the profession and to the transport market of hauliers, drivers and motor vehicles performing public transport of passengers and goods, on issuing of licenses, authorisations, systems for type approval of motor vehicles, etc.

The *State Automobile Inspectorate* is an existing administrative structure. Its functions are related to the practical implementation of the Road Transport Law, control on its implementation, control on drivers' qualification and professional competence of hauliers and drivers, control on motor vehicles technical operation for transportation of goods and loads, examination of drivers, training and consulting on road traffic safety.

The new Road Traffic Law on the basis of an existing structure establishes a Specialised body for co-ordination of the activities of the state and public authorities in the field of road traffic safety.

There is a Maritime Administration Staff of 434 people including 90 inspectors working in 4 regional offices.

Employment and social policy: The national Employment Agency is a quasi public body established on the basis of the tripartite co-operation (Government, employers' organisations and workers' and employees' organisations). It has a staff of 4036 people. It is in charge of granting and revocation of licenses and certificates, approvals, refusals, imposition of compulsory administrative measures and penalty payments.

The Insurance Supervision directorate is a public body also in charge of approvals, refusals, and issuing of certificates in the insurance sphere. It has a staff of 33 people, currently 11 vacancies.

Regional policy and cohesion: Clear allocation of responsibilities for EU structural funds has been established between the relevant ministries, the co-ordinating ministry being the Ministry of Regional Development and Public Works (MRDPW).

The Central Co-ordination Unit in the Ministry of Regional Development and Public Works ensures the inter-ministerial co-ordination. Procedures for co-ordination have been established. The Council for Regional Development (at the Council of Ministers) evaluates the initiatives of the key Ministries and approves the Plans.

In the medium term, the administrative organisation of the 6 macro-regions at the NUTS II level needs to be made operational, a multi-annual programming capacity needs to be developed and financial control procedures need to be reinforced. Adequate structures need to be set up for the control of public procurement procedure.

Environment: The Ministry of Environment and Water is currently composed of specialised departments at the national level (air protection, water quality, international co-operation, etc.), a National Environment Protection Fund, in charge of the collection of fines and co-financing of environmental projects, a National Centre for Environment and Sustainable Development, in charge of the monitoring of environmental indicators, in collaboration with the 15 Regional Inspectorates of the Ministry.

The ability of the Ministry of Environment and Water to develop and promote policy and strategies remains weak. Understanding of EU legislation and the measures for implementation and development policy in the environmental sector has improved. A clear mechanism for monitoring at the regional level and control in general on the approximation process should be developed. The necessary structures and skills for self-assessment and monitoring the application of the legislation have not been adequately developed and the regional structures of the Ministry would need a serious reinforcement. There are not enough developed capabilities to make financial/economic evaluations and plans. More training is required in the preparation and assessment of environmental impact assessments, especially at regional level.

Consumer protection : The Ministry of trade and Tourism and the Commission on Trade and Consumer Protection (with 9 regional centres and a staff of 188 persons) are state bodies in charge of consumer policy. The Consumer Protection Law (April 1999) provides for the establishment of the institutional structures needed for its implementation. It defines the administrative and consultative structures.

As of June 1999 only part of the institutional structures have been legally established, notably the Ministry of Trade and Tourism's new special Consumer Protection Unit within the Trade Policy Department (consisting of 6 people) and the Reconciliation Commission (still on paper only). The Commission on Prices and Trade is still to be transformed (through a Government Regulation) into a Commission of Consumer Protection and Trade Rules. It has currently 188 people in its headquarters the 9 regional offices and the 28 district offices throughout Bulgaria.

The newly created consumers associations are still weak having less experience than the older Federation, but they are ambitious and willing to participate in defending consumer interests and rights.

Justice and home affairs: The Ministry of Interior and its Services (National Security Services, National Police Service, National Service for Combating Organised crime, National Fire and Emergency Safety Service, National Gendarmerie Service and the National Border Police Service) continued their administrative strengthening on the basis of the Programme of the Ministry of Interior for European Integration. The main accomplishment is the on-going demilitarisation of the National Border Police Services. In 1999 alone, 1000 military conscripts were transformed into 600 regular police officers. In parallel, National Gendarmerie Service and National Border police Service were restructured into specialised police services. A new organisation was established within the National Border Police for the protection of state frontiers and effective border control. New police structural units were set up within the National Gendarmerie Service. Uniform Personnel Development System was developed out and is already being partially implemented.

Despite progress in institutional strengthening of the Ministry of Interior, there is a general need for additional training for all services and for further democratisation and transparency of the law enforcement bodies. In addition to that and in order to raise the efficiency of crime fighting, inter agency communication and co-operation will need to be strengthened, starting with the communication links between the Ministry of the Interior and the Ministry of Justice and European Legal Integration (MJELI).

The overall administrative capacity of the MJELI as well as of the judiciary remains weak. The institutional strengthening of the court administration, including upgrading of equipment, should be a priority as well as the strengthening of the professional associations, in order to guarantee the independence of the judiciary. The total number of judges is approximately 1400.

Customs : Bulgaria's Customs Service has to cover land boundaries of about 1800 kilometres and a coastline of 350 kilometres at the Black Sea. Bulgaria has made progress towards aligning its customs organisation and administration with the requirements of the *acquis*. The new Customs Act and its implementing regulations entered into force on 1 January 1999. The Bulgarian Customs Administration at the Ministry of Finance is the administrative authority in the field, responsible for legislation and policy-implementation. Some measure for the reorganisation of the customs administration have been taken. There are nowadays an articulate structure of 5 regional directorates with 115 units within which the total staffing counts 3 800 persons. Efforts have been made to achieve a satisfactory level of training (3 customs schools exists) and to improve the communication between the central and local authorities in view to harmonise the working methods among local posts. There is a general need to ensure implementation of the new Customs Code through preparation of adequate instructions and the necessary changes in the customs clearance procedures, including the handling of the Single Administrative Document (SAD). However, corruption within the Bulgarian customs administration still remains a concern, although the Government has approved a project for fight against corruption.

Financial control: Financial control in Bulgaria is performed by the National Audit Office, the State Financial Control Office of the Ministry of Finance and by the financial control offices in line ministries.

The NAO has a court-type structure with collegial decision-making procedures but with no judicial powers. In addition to auditing, the NAO has some duties of a non-audit nature, such as providing advice on the annual draft budget. The NAO's audit remit is relatively broad,

including the budgets of municipalities and funds provided by international donors, including the EU. The NAO has an authorised staff of 470 positions, of which 407 are currently filled.

The State Financial Control can be regarded as the main internal audit body within the Bulgarian Public Administration. It is linked to the Ministry of Finance but is functionally independent from this Ministry as well from other public institutions. It is 1450 staff strong, most of the controllers employed in the 28 regional offices.

The concept of internal financial control is still under much discussion by the relevant Bulgarian authorities. The roles and functions of both the National Audit Office (the external auditor) and the State Financial Control will need further clarification.

C. Conclusion

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

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

Macroeconomic stability has been maintained thanks to implementation of sound fiscal and incomes policies under the currency board arrangement. Despite an adverse external environment, the authorities have persevered with their ambitious reform agenda.

Priority should now be given to completing privatisation and accelerating restructuring of the enterprise and banking sectors. Special attention should be paid to liquidation and bankruptcy procedures in order to make them more effective. Additional measures are needed to impose financial discipline, particularly on state-owned enterprises. The authorities should also intensify the reform of the financial sector, in particular continued privatisation. Further steps are needed to ensure a stable and transparent legal framework for business.

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

There has been no significant improvement in the area of state aids, There is no systematic control of compatibility, the monitoring authority needs to be re-inforced and responsibility for state aid control should be further clarified. Despite some progress in alignment in agriculture there are problems of implementation, partly due to lack of funding. Veterinary inspection needs to be re-inforced, including at border posts and there is a need to speed up land restitution so as to create an active and transparent land market which can encourage investment in agriculture. Important steps have been taken in establishing a basis for regional policy but there has been less progress in the social sector. There has been some legislative progress in environment but the lack of an overall strategy and sectoral strategies which are needed for the identification of investment projects continues to pose problems. Bulgaria has made substantial progress in the area of justice and home affairs, particularly in immigration and justice. There is an ongoing need for investment in staff and equipment and to redouble efforts to fight against corruption.

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

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

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

D. Accession Partnerships and National Programme for the Adoption of the *Acquis* : Global Assessment of Implementation

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

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

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short and medium-term priorities

Short-term priorities

The short-term priorities of the Accession Partnership⁷ and an assessment of the progress made concerning their fulfilment are indicated below.

- **Economic reform** : *establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; pursuit of the programme launched by the Government, including transparent privatisation of state enterprises and banks and restructuring measures in industry, financial sector and agriculture and measures to encourage increased foreign direct investment.*

Assessment : Bulgaria has established a medium term economic strategy reflecting achievements in economic reform and addressing the Accession Partnership priority which was jointly assessed with the Commission. It has successfully implemented the medium-term economic programme and overall economic stability has been sustained. This has created positive perspectives for economic growth, low inflation, reduction in public debt, increased foreign investment and privatisation. Progress has been made in the liberalisation of prices and trade. Further efforts are needed to promote competitiveness through market-based enterprise restructuring, to improve the business environment and stimulate domestic and inward investments, in particular through simplification of legal and administrative procedures, to ensure transparent privatisation of state owned enterprises and banks, to streamline bankruptcy procedures, supervisory structures of financial services and reforming the energy sector. Land reform and establishment of the agricultural census need particular efforts. Therefore, this priority has been partially met.

- **Reinforcement of institutional and administrative capacity** : *adoption of the draft civil service law and progress in public administration reform as well as institutional*

⁷ Council Regulation 622/98, OJ L85 of 20 March 1998

strengthening in the areas of internal financial control capacity, environment, customs policy, reinforcement of phytosanitary and veterinary administrations, particularly as regards facilities at external borders, begin to set up structures needed for regional and structural policy.

Assessment : A general public reform strategy exists, but urgent steps need to be taken to implement the law on the administration and adopt and implement the civil service law. Progress was achieved in areas such as state aids, financial investigations, veterinary control, audio-visual, intellectual property as well as border management. An insufficiently coherent and effective policy, including lack of financial resources, for the recruitment, remuneration, training and development of staff of the state administration remains a significant constraint for Bulgaria's reform and accession process. The institutions involved in applying, monitoring and enforcing the *acquis* need to be enforced in areas such as the Court system, public procurement, financial control, tax collection at national and regional level, environment monitoring, customs and particularly in the field of phytosanitary and veterinary matters, including the related border control facilities; further steps are necessary at the central and regional level to prepare for implementation of structural fund facilities. Therefore, this priority has been not met.

- **Internal Market:** *further alignment including in the areas of intellectual and industrial property rights (strengthening of enforcement of protection), financial services, taxation, the adoption of the necessary legislative framework for state aid monitoring and the establishment of a first state aid inventory, the adoption of a new competition law.*

Assessment : Bulgaria has made progress in the field of intellectual property rights, and border controls and its enforcement. Alignment to the *acquis*, particularly as regards public procurement, standardisation and certification and the new approach and consumer protection has been started. Some progress was made as regards financial services, customs, taxation and state aids, but the institutional set up is still weak. Further progress is needed in relation to public procurement procedures, data protection, industrial property rights and trade marks, standardisation and certification, including the implementation of the new approach principles, strengthening of supervisory bodies in financial services, state aid monitoring and a compatible state aid inventory and implementation of the customs legislation. Therefore, this criteria has been partially met.

- **Justice and Home Affairs :** *concrete steps to combat corruption and organised crime and improve border management.*

Assessment : Bulgaria has made progress in strengthening of the legal framework in several areas of Justice and Home Affairs, particularly in the field of border management. Existing gaps will need to be addressed especially with regard to upgrading the efficiency and independence of the judiciary and law enforcement bodies and training on EU legislation, still insufficient strategy and infrastructure in order to fight corruption and organised crime, the border police including management and co-ordination of services, the implementation and enforcement of new legislation on migration, asylum procedures and the adoption of a civil code and civil procedure code. Therefore, this criteria has been partially met.

- **Environment** : *continue transposition of framework and horizontal legislation establishment of implementation of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

Assessment : Bulgaria has made good progress in adopting legal acts with a view to harmonising its legislation to EU legislation, notably in transposition of horizontal and framework legislation on waste, air and water. However, further progress is required to prepare detailed approximation programmes of related legislation for air, water, waste, industrial pollution and risk management, chemicals, GMOs and noise emission as well an overall multi-annual strategy for the environment and update the national action plan, including an estimate of investment costs required for the implementation of the acquis. Environmental monitoring and EIA should be strengthened at national and regional level. Therefore, this criteria has been partially met.

- **Energy** : *in particular establishing a comprehensive, long term, energy strategy and respect of nuclear safety standards and realistic closure commitments for certain units as entered into in the Nuclear Safety Account Agreement.*

Assessment : Bulgaria has continued to reform its energy sector. It has established a strategy on the development of the energy sector until 2010. Points of concern remain the proposed closure dates for Kozloduy units 1-4, as well as unrealistically high electricity demand forecasts. Bulgaria has also adopted an action plan for the first phase until 2001 which is an important first step in view of Bulgaria's alignment to the internal energy market. Bulgaria needs to adopt the law on energy and energy efficiency together with an approximation timetable relating to the preparation of sectoral laws and related reform plans (security of supply, electricity and gas directives) and strengthening of the regulatory public body is. In addition, a price and tariff structure leading to cost based and transparent energy prices needs to be established. Therefore, this criteria has not been met.

Bulgaria has continued to make progress in addressing all of the short term Accession Partnership priorities. Priorities such as the adoption of an economic reform strategy and measures to ensure macroeconomic stability; transposition of intellectual property, financial services, taxation and competition legislation; taking measures to combat organised crime and corruption, and the development of an energy strategy have been addressed. Substantial efforts are still needed however in regard to many of the other short term priorities including the privatisation and restructuring, meeting closure commitments for Kozloduy, strengthening of institutional and administrative capacity, developing an adequate state aid control system, the development of approximation programmes and implementation strategies in the environmental field and in taking further steps to combat corruption and organised crime as well as financial control and public procurement structures.

Medium-term priorities

Only the medium term priorities of the 1998 Accession Partnership that have been met are mentioned below.

- **Political criteria:** *further efforts to integrate the Roma and consolidation of protection of individual liberties.*

Assessment : Significant progress was achieved concerning further integration of Roma through the adoption of a Framework Programme for “Full Integration of the Roma Population into the Bulgarian Society” and establishment of relevant institutions at central and regional level.

Bulgaria has also adopted a law on education in minority languages. It has abolished the death penalty and signed the remaining Conventions concerning the protection of human rights and national minorities.

However, efforts need to be sustained. Adequate funding of activities at the local and regional level is important in order to ensure quick implementation of the framework programme and to address problems of unemployment and education to continue its policy of integration of the Turkish minority. Bulgaria has partially met this priority.

- **Economic reform:** *complete the privatisation process. Strengthen market economy institutions.*

Assessment : Bulgaria has made progress concerning the implementation of privatisation programmes with only minor changes to the agreed timetable and has further strengthened market economy institutions. However, major efforts need still to be invested in order fully implement restructuring plans, bankruptcy and liquidation procedures and to complete privatisation of remaining key industries as well as the legislative and institutional framework of a market economy.

- **Reinforcement of institutional and administrative capacity:** *completion of reform at all levels, including training for civil servants; improved operation of the judicial system, training for the judiciary in Community law and its application; further development of the National Audit Office and internal financial control structures; establishment of anti-trust and state aid monitoring bodies; improvements in accounting, auditing and statistics and strengthening nuclear regulatory authority; reinforcement of justice and home affairs institutions (ensuring sufficient and properly trained personnel in particular police, border guards, ministries and courts), reform of customs and tax administrations to ensure readiness to apply the *acquis* and the reinforcement of food control administrations.*

Assessment : Bulgaria has made little progress concerning the reform of its public administration. However, some progress was made concerning strengthening of state aids, accounting and statistics as well as customs and taxations bodies.

- **Internal Market:** *including alignment of competition policy, state aids, customs, taxation, audio-visual policies, public procurement legislation (including transparency), upgrading of standardisation, conformity assessment structures and establishment of a market surveillance system and harmonisation of technical legislation on industrial standards. Further alignment of competition law and effective enforcement of competition laws, reinforcement of competition authorities, promotion of enterprise development, including SME's, alignment with the *acquis* in the fields of telecoms, consumer protection and the internal energy market.*

Assessment : Bulgaria has made progress concerning alignment of internal market legislation, notably concerning competition policy, customs, taxation, audiovisual policies, public procurement and standardisation, SME and consumer protection. Particular efforts

are needed to further upgrade industrial standards, state aid monitoring and the internal energy market as well as the institutional strengthening of all internal market bodies.

- **Justice and home affairs:** *development of effective border management and frontier control systems, implementation of migration policy and asylum procedures as well as the fight against organised crime (in particular money laundering, drugs and trafficking in human beings) and corruption, and to align visa policy with that of the EU and to complete alignment to international conventions, notably in view of the Schengen acquis.*

Assessment : Bulgaria has made progress in addressing border management and controls as well as its alignment to the visa policy in particular. Substantial efforts are needed concerning implementation of an effective migration policy as well as of coherent strategy concerning fight against corruption and organised crime.

- **Regional policy and cohesion:** *introduction of legal basis and development of administrative structures and budgetary procedures. Strengthen financial instruments and control mechanisms in order to participate in EU structural programmes after membership.*

Assessment : Bulgaria has made progress in addressing this priority and has set up the legislative basis and the institutions necessary for its participation in EU structural programmes. However, administrative capacity remains still weak, particularly as regards the financial instruments and control mechanism.

2. National Programme for the Adoption of the *Acquis* — Assessment

The revised Bulgarian National Programme for the Adoption of the *Acquis* was adopted by the Council of Ministers on 20 May 1999 and presented to the Commission in early June 1999.

Overall, the revised Bulgarian National Programme for the Adoption of the *Acquis* covers Accession Partnership priorities, is a significant improvement to the first draft and should be again revised on the basis of the comments received by the Commission.

In terms of organisation, the National Programme follows the structure of the Opinion and the Regular Report of the European Commission, and takes into account the assessments and recommendations set out in these documents, the national priorities and the Accession Partnership priorities. On the basis of this analysis it details the national priorities and the measures needed for their achievement, including the necessary administrative structural and financial resources.

The Programme consists of a brief textual section summarising the priority objectives for the fulfilment of the membership criteria, and a detailed section specifying by sectors the measures to be taken for the achievement of the priority objectives – both in a short-term perspective and in a medium-term perspective.

A comprehensive and well-designed set of tables, relating to all areas covered by the *Acquis*, provides for information on the transposition and implementation of the *Acquis*.

The NPAA 1999 is a document which takes into account the *acquis* in a satisfactory manner and which has generally managed to cover almost all sectors in a homogeneous way. It makes the link between the strategic approach and the specific measures introduced in every specific area. Overall the document shows the high level of commitment by the Bulgarian government to the objective of joining the European Union and getting prepared to fulfil the membership criteria. Screening results seem to be fairly reflected in terms of comprehension and commitment to adopt the *acquis*.

However in many fields, not much detail is given as to the concrete measures intended to be adopted in the short or medium term, whereas the financial costs for the introduction of the various measures have not been calculated in most cases. This (especially when it is question of institution building) will certainly hamper the capacity to implement those measures, since the linkage between policy making and budgeting is missing. In this respect it should be mentioned that it is not absolutely clear how the implementation of the NPAA will be followed through. The involvement of actors other than the administration (e.g. trade unions, professional associations, employment associations, etc.) either at the level of participation in the elaboration of the texts or their information or training after the introduction of the laws is not covered.

Overall the NPAA 1999 seems to cover substantially the '*acquis*' in the following areas: intellectual property, company law, accounting, free movement of capital, free movement of goods, audio-visual, consumer protection, competition and state aids, customs, agriculture (Veterinary and Phyto-sanitary control), statistics, justice and home affairs (the part on home affairs), external economic policy, common foreign and security policy amongst others. However, in these areas the NPAA should be completed by more detailed descriptions of the short and medium term measures and by detailed calculations of the financial costs. In many areas it seems that the plans are either too optimistic or vague - they will have to become more realistic.

The NPAA ought to be completed as regards the political criteria, the economic criteria, the administrative needs and the financial needs. The NPAA also needs more specific reworking in the following areas: data protection, EMU, financial control, the justice aspects of JHA. In these areas it is not clear if the '*acquis*' is sufficiently covered nor if the administration has at its disposal enough means to introduce and implement the legislation.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES, JUNE
1999**

<i>herence to following ventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LI T	MT	PL	RO	SK	SV	T
CHR (European Charter r Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
otocol 1 (right of property al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
otocol 4 (freedom ovement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
otocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
otocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
European Convention for e Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	O	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	O	O	O	O	O	O	O	O	O	X	O	X	O
ditional Protocol to the iC (system of collective mplaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention r National Minorities	X	X	X	X	X	O	O	X	O	X	X	X	O
CPR (International ovenant on Civil and litical Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
ptional Protocol to the CPR (right of individual mmunication)	X	X	X	X	X	X	X	X	X	X	X	X	O
cond Optional Protocol to CPR (abolition death nalty)	X	O	O	O	X	O	O	X	O	X	O	X	O
ESCR (International ovenant on Economic, ocial and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against rture)	X	X	X	X	X	X	X	X	X	X	X	X	X
ICERD (Convention on the mination of All Forms of ocial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on e Elimination of All rms of Discrimination ainst Women)	X	X	X	X	X	X	X	X	X	X	X	X	X

RC (Convention on the ght of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X
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X = Convention ratified
 O = Convention NOT ratified

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

Annex

STATISTICAL DATA

STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
Population (average)	8 444	8 406	8 363	8 312	8 257
	in Km ²				
Total area	110 990	110 990	110 990	110 990	110 990*
National accounts	Mio New Lev ⁸				
Gross domestic product at current prices	525.6	880.3	1748.7	17103.4	21577.0
	1000 Mio EURO				
Gross domestic product at current prices	8.2	10.0	7.8	9.0	11.0
	EURO				
Gross domestic product per capita⁹ at current prices	1000	1200	900	1100	1300
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	1.8	2.9	-10.1	-6.9	3.4
	in Purchasing Power Standards				
Gross domestic product per capita¹ at current prices	4700	4900	4600	4400	4600
Structure of production	in % of Gross Value Added ¹⁰				
- Agriculture	:	:	15.4	26.2	21.1
- Industry (excluding construction)	:	:	25.9	26.7	25.0
- Construction	:	:	4.3	2.8	3.7
- Services	:	:	54.5	44.4	50.2
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	91.3	85.9	88.5	84.1	88.0
- household and NPISH	74.1	70.7	76.6	71.8	72.9
- general government	17.2	15.3	11.9	12.4	15.1
- Gross fixed capital formation	13.8	15.3	13.6	11.3	11.6
- Stock variation ¹¹	-4.5	0.4	-5.2	-1.0	1.5
- Exports of goods and services	45.1	44.7	62.9	61.3	45.2
- Imports of goods and services	45.7	46.3	59.8	55.7	46.3
Inflation rate	% change over the previous year				
Consumer price	87.1	62.1	123.0	1082.3	22.3
Balance of payments	Mio EURO				
-Current account	-27	-20	13	376	-197

⁸ The currency has been rebased in July 99.

⁹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁰ Including FISIM.

¹¹ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

-Trade balance	-14	93	148	335	-282
<i>Exports of goods</i>	3 308	4 086	3 851	4 356	3 829
<i>Imports of goods</i>	3 322	3 994	3 704	4 020	4 111
-Net services	9	117	95	147	132
-Net income	-162	-330	-312	-315	-253
-Net current transfers	140	101	82	209	205
<i>-of which: government transfers</i>	2	11	29	114	53

	1994	1995	1996	1997	1998
Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-5.2	-5.1	-15.3	-0.3	:
Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	60.3	47.5	55.6	87.5	65.7
Monetary aggregates	1000 Mio EURO				
- M1	0.9	1.2	0.4	1.2	1.4
- M2	5.0	6.1	2.0	2.9	3.2
Total credit	:	6.8	3.3	2.6	2.2
Average short-term interest rates	% per annum				
- Lending rate	72.6	59.0	123.5	84.0	13.3
- Deposit rate	51.1	35.9	74.7	46.8	3.0
EURO exchange rates ¹²	(1EURO=..National currency)				
- Average of period	0.064389	0.087866	0.225149	1.90157	1.96913
- End of period	0.081207	0.092917	0.610645	1.97632	1.95583
	1995=100				
- Effective exchange rate index	118.53	100	56.88	5.55	5.39
Reserve assets	Mio EURO				
-Reserve assets (including gold)	1066	1176	633	2241	2619
-Reserve assets (excluding gold)	814	941	386	1986	2361
External trade	Mio EURO				
Imports	3525.0	4323.2	3949.1	4348.6	4451.4*
Exports	3357.1	4091.7	3806.1	4355.4	3844.5*
Balance	-167.9	-231.5	-143.0	6.8	-606.9*
	corresponding period of the previous year = 100				
Terms of trade	100.8	97.6	:	:	:
	As % of total				
Imports with EU-15 (EU-12 in 1994)	32.5	37.2	35.1	37.7	45.0*
Exports with EU-15 (EU-12 in 1994)	35.4	37.6	39.1	43.2	49.7*
Demography	per 1000 of population				
Natural growth rate	-3.8	-5.1	-5.4	-6.9	-6.4
Net migration rate (including corrections)	0.0	0.0	0.1	0.0	0.0
	per 1000 live-births				
Infant mortality rate	16.3	14.8	15.6	17.5	14.4
	at birth				
Life expectancy : Males	:	67.1	67.1	:	:
Females	:	74.6	74.3	:	:

¹² Note that Bulgaria has rebased their currency in July 99, dividing it by 1000. The currency is now called "New Bulgarian Lev".

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	% of labour force				
Economic activity rate	52.4	51.5	51.8	51.6	50.4*
Unemployment rate, total	20.5	14.7	13.7	15.0	16.0*
Unemployment rate of persons < 25 years	44.9	37.7	33.5	36.0	36.0*
Unemployment rate of persons >= 25 years	16.8	11.6	11.3	12.4	13.4*
Average employment by NACE branches	% of total				
- Agriculture and forestry	23.2	24.4	24.4	25.3	25.7*
- Industry (excluding construction)	29.1	27.3	27.5	27.6	26.4*
- Construction	5.7	5.4	5.0	4.4	4.4*
- Services	42	42.9	43.1	42.7	43.5*
Infrastructure	in Km per 1000 Km2				
Railway network	:	38.7	38.7	38.7	38.7*
	in km				
Length of motorways	:	314	314	314	319*
Industry and agriculture	previous year = 100				
Industrial production volume indices	:	100.0	105.1	90.0	87.3*
Gross agricultural production volume indices	107.1	116.0	88.5	114.2	100.0*
Standard of living	per 1000 inhabitants				
Number of cars	:	196.1	204.1	208.3	219.1*
Telephone subscribers	:	361	373	377	387*
Number of Internet connections	:	:	:	:	0.8 ¹³

*** provisional**
: not available

¹³ Source: United Nations.

Methodological Notes

National account

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

Inflation rate

Consumer price The EU Member States have designed a new consumer price index in order to meet the obligations in the Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

Financial indicators .

Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

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

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific

policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

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

Exchange rates Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of 1995.

External trade

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

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

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

Imports and exports with EU-15. Data declared by Bulgaria.

Demography

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

Labour force

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

- Labour force: employed and unemployed persons (in the sense of the ILO definitions).
- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, and members of

co-operatives or contributing family workers. Members of armed forces and women on child-care leave are included.

- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

- (i) have no work,
- (ii) are actively seeking a job and,
- (iii) are ready to take up a job within a fortnight.

The data by ILO methodology are for October 1994, October 1995, November 1996, November 1997 and November 1998. Conscripts on compulsory military services and persons, attended military school are considered as persons not in labour force. Considered as not in labour force are also persons on partially paid or unpaid maternity leave.

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

Average employment by NACE branches. This data is not derived from LFS.

Infrastructure

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

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which.

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

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

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

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

Industry and agriculture.

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

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

Gross agricultural production volume indices. Data are based on SNA methodology.

Standard of living

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

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

Sources

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

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