

Chapter 3

Bulgaria

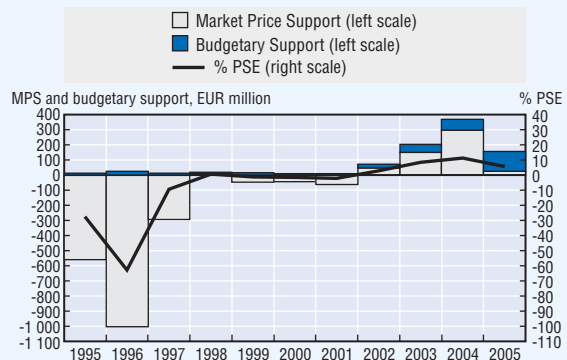
Evaluation of policy developments

- Over the review period, Bulgaria has introduced legislation establishing EU Common Market Organisations such as domestic market intervention, which was only used for wheat, and export subsidies. A number of budgetary measures, similar to those applied in the EU were also introduced. As a result, support to producers has increased, but it remained well below OECD and EU levels in 2003-05.
- The introduction of export subsidies and use of export restrictions reduced the market orientation of Bulgaria's agriculture and resulted in distortions on production and trade.
- Bulgaria introduced payments per hectare, which are spatially targeted to abandoned land and less-favoured areas, with differentiated rates by type of farmer (*e.g.* young farmers) in the second case. As is intended, these payments will encourage agricultural production in those areas, but not that of specific commodities.
- SAPARD measures can potentially contribute to improvements in the competitiveness of the agro-food sector through restructuring of farm and agro-food companies, better food quality and safety, infrastructure improvements and diversification of income sources in rural areas.
- Bulgaria will implement the EU Common Agricultural Policy in January 2007. It is expected to raise support to producers gradually and significantly. Opting for the most decoupled options, in particular regarding the main direct payments, will allow producers to base their decisions on market signals. Targeting optional measures to specific objectives should also improve the efficiency of agricultural policy.

Description of support

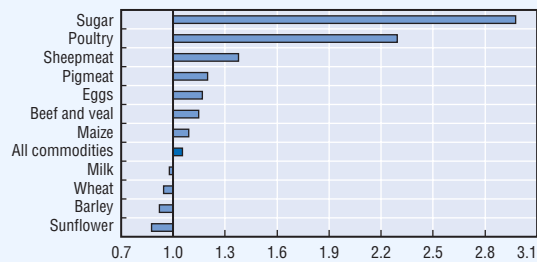
- Support to producers (%PSE) declined from 11% to 6% between 2004 and 2005. It was 8% on average in 2003-05, an increase from negative numbers recorded in 1995-97, but a level much lower than the OECD average of 30%.
- Market price support accounted for 65% of the PSE in 2003-05, followed by payments based on input use (27%) and payments based on output (8%).
- Prices received by farmers, which were lower than those on the world market in 1995-97, became 5% higher on average in 2003-05. However, prices of wheat, barley, sunflower remained lower than those on the world market in 2003-05, while producers received prices more than twice higher than those on the world market for poultry and sugar.
- The %CSE, switched from an implicit support to consumers in 1995-97 to an implicit tax of 8% in 2003-05.
- Support for general services provided to agriculture mainly related to infrastructure and accounted for 6% of the total support to agriculture (TSE) in 2003-05.
- Total support to agriculture as a share of GDP was 1.33% in 2003-05, compared to an OECD average of 1.14% in 2003-05.

Figure 3.1. PSE level and composition over time



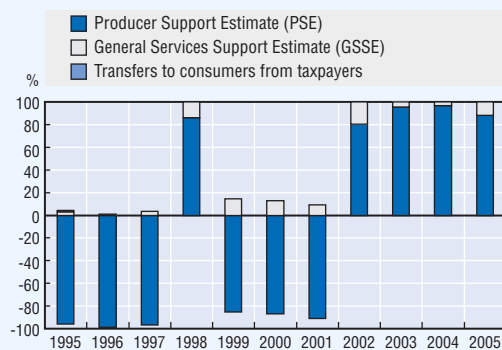
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Figure 3.2. Producer NPC by commodity, 2003-05 average



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Figure 3.3. TSE composition over time



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Source: OECD, PSE/CSE database, 2006.


Table 3.1. **Bulgaria: Estimates of support to agriculture**

BGN million

	1995-97	2003-05	2003	2004	2005
Total value of production (at farm gate)	2 074	5 362	4 560	6 359	5 166
<i>of which share of MPS commodities (%)</i>	<i>59</i>	<i>52</i>	<i>49</i>	<i>56</i>	<i>52</i>
Total value of consumption (at farm gate)	2 078	5 140	4 538	5 877	5 005
Producer Support Estimate (PSE)	-269	476	399	724	304
Market Price Support (MPS)	-279	308	293	581	51
<i>of which MPS commodities</i>	<i>-159</i>	<i>165</i>	<i>145</i>	<i>324</i>	<i>27</i>
Payments based on output	6	37	33	36	43
Payments based on area planted/animal numbers	1	0	0	0	0
Payments based on historical entitlements	0	0	0	0	0
Payments based on input use	3	130	73	107	209
Payments based on input constraints	0	0	0	0	0
Payments based on overall farming income	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE	-33	8	9	11	6
Producer NPC	0.74	1.05	1.07	1.12	0.97
Producer NAC	0.77	1.09	1.09	1.13	1.06
General Services Support Estimate (GSSE)	8	28	19	25	41
Research and development	0	0	1	0	0
Agricultural schools	0	1	1	0	2
Inspection services	0	7	6	6	7
Infrastructure	8	21	11	19	32
Marketing and promotion	0	0	0	0	0
Public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
GSSE as a share of TSE (%)	-2.9	5.6	4.6	3.4	11.8
Consumer Support Estimate (CSE)	286	-411	-384	-622	-226
Transfers to producers from consumers	290	-298	-276	-647	31
Other transfers from consumers	14	-110	-119	-60	-152
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	-17	-3	11	85	-105
Percentage CSE	32	-8	-8	-11	-5
Consumer NPC	0.76	1.09	1.10	1.14	1.02
Consumer NAC	0.78	1.09	1.09	1.12	1.05
Total Support Estimate (TSE)	-261	504	418	749	345
Transfers from consumers	-303	408	395	707	121
Transfers from taxpayers	29	207	142	102	375
Budget revenues	14	-110	-119	-60	-152
Percentage TSE (expressed as share of GDP)	-6.87	1.33	1.21	1.96	0.82
GDP deflator 1995-97 = 100	100	427	408	428	444

For the definition of OECD indicators of support to agriculture, see Annex A.1. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient. Market price support is net of producer levies and excess feed costs. MPS commodities for Bulgaria are: wheat, maize, barley, sunflower, sugar, milk, beef and veal, sheepmeat, pigmeat, poultry and eggs.

Source: OECD, PSE/CSE database, 2006.

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Summary of key policy developments

The main developments in Bulgaria's agricultural policy related to preparation for accession to the EU in January 2007, and to emergency measures as a response to recent weather-related disasters and animal disease outbreaks. Intervention mechanisms were introduced in 2002 and export subsidies in 2004. Less-Favoured Area (LFA) payments, a scheme applied in the EU, were introduced in 2005 on a pilot basis. The number of measures offered under the EU Special Accession Programme for Agriculture and Rural Development (SAPARD) increased. A paying agency was created to handle EU payments and discussion started on the implementation of the EU Single Area Payment Scheme (SAPS).

Policy context

Agriculture represented less than 10% of GDP in 2005, down from 15% in 2000, while its share in total employment remained stable at about 25% over the same period. Bulgaria is a net exporter of agro-food products. Agro-food exports accounted for 11% of total exports and agro-food imports for 5% of total imports in 2005. The average share of household income spent on food is around 40%.

Macroeconomic situation

GDP growth rate accelerated to 5.6% in 2004 and 5.5% in 2005, compared to an average of 5.1% per annum over the period 2000-05. The contribution of services and industry to GDP growth increased. Fixed capital formation increased by an average of 15.4% per annum over the period 2000-05. Inflation rates have been below 10% since 2001. From 2.3% in 2003, inflation rates increased to 6.1% and 5% in 2004 and 2005, respectively, mainly due to higher domestic prices for energy. The currency appreciated against USD from 2002 to 2004 and remained stable in 2005.

The merchandise trade balance deteriorated over the period 2000-05. The 2000 deficit tripled in 2004 and more than quadrupled in 2005, mainly due to the higher cost of oil imports and lower exports of electricity following the closing down of two nuclear reactors. The current account deficit reached 11.8% of GDP in 2005 as the positive impact of direct investment in the country and tourism could not offset the negative impact of the deteriorating trade balance. The state budget has been balanced since 2003 and even positive in 2005. On average interest rates declined slightly. The improved overall economic situation reflected positively on the unemployment rate. From close to 20% in the early 2000s, it declined to around 10% in 2005 and to 9% in 2006.

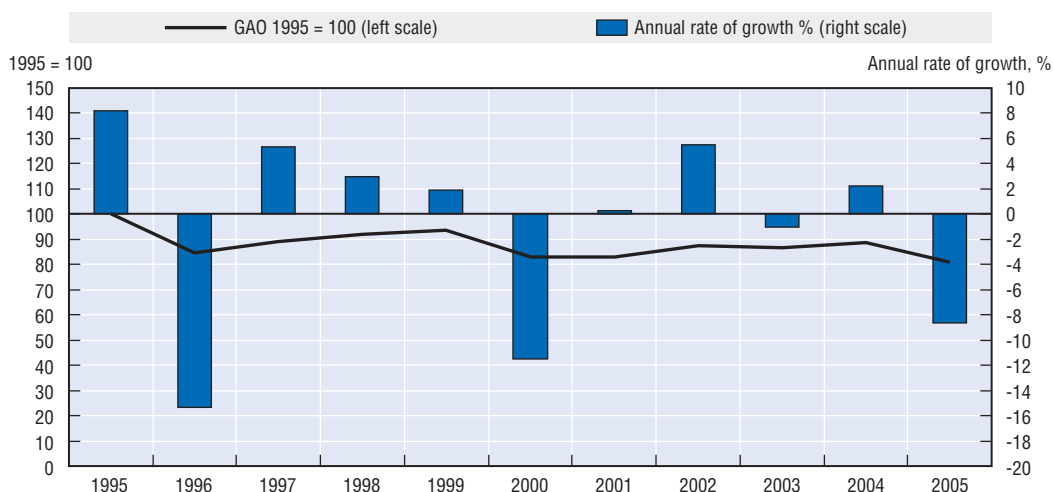
Agriculture and agri-food situation

Output

Gross Agricultural Output (GAO) fell sharply in 2000 and has fluctuated since, reflecting mainly variations in yields with weather conditions (Figure 3.4) GAO decreased by 1% in 2003 because of a drought, increased by 2.2% in 2004 and fell again by 8.6% in 2005 as the 4% increase in livestock production was counterbalanced by a more than 10% drop in crop production.

Prices of almost all agricultural products increased in 2003 and 2004, with the exception of sunflower and sugar beet. This brought Bulgarian farm-gate prices for crops close to EU levels in 2004. In 2005, however, cereal prices fell significantly, while sunflower

Figure 3.4. **Evolution and annual changes of agricultural output in Bulgaria, 1995-2005**



Source: National statistics, 2006.

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prices recovered. Prices for livestock products, in particular beef and veal prices, remain substantially below EU levels, although, with the exception of egg prices, they have increased in 2004 and 2005.

Crops

The most important crops are cereals and sunflowers, which account for approximately 50% of crop output. They are followed by vegetables, which account for around 25% of crop production, and industrial crops (including oilseeds, fibres, and medicinal and aromatic plants), which has increased to 14%-15% of crop output in 2005. The share of all cereals in agricultural area has been relatively stable, with variations in individual shares. Wheat area has increased in 2004 and 2005, following a sharp reduction in 2003. Production changes mainly reflect large fluctuations in yields due to extreme weather conditions (a drought in 2003 and torrential rain and floods in 2005).

Livestock

The most important livestock products are milk, pigmeat and poultry meat which account for 59% of livestock production. The share of livestock products in agricultural output is declining. The overall trend is difficult to measure because of a change in the methodology used to calculate GAO for livestock in 2001, but the number of animals and the production of milk and meat clearly declined in 2003 compared to 2000 levels. There are two main reasons for the drop in livestock output: feed prices increased more than meat and milk prices; and stricter sanitary and quality requirements were imposed on livestock production. However, meat and milk production has increased in 2004 and 2005.

Farm income has remained at BGN 3 000 million (EUR 1 534 million) over the period 2000-05 with small yearly fluctuations. The annual farm income per full time farmer was estimated at BGN 3 716-3 912 (EUR 1 990-2 000) in 2005.

Structures

According to the 2003 farm survey, there were 684 229 farms with 2.9 million hectares of land. The average size of family farms is 1.3 hectares. They account for 98% of the farms and cultivate 30% of the land. Other legal entities include cooperatives. One-third of family farms have less than 0.3 hectare of land and 77% less than 1 hectare. Almost one-third of cattle and a quarter of pigs are on farms with less than two animals. Only 47% of cattle are on farms with more than five animals. According to Eurostat's 2003 structural survey, there were 153 700 farms with standard gross margins over one unit (EUR 1 200). They occupied 2.6 million hectares and their average size was 16.7 hectare. Main occupation farms accounted for 80% of these farms. More than half of farmers were over 55 and only 7% under 35.

In 2005 the total number of farms declined by 20% compared to 2003, while the average farm size increased by 18%. The number of small farms has declined in recent years and there has been an increase in the average size of the medium and large farms. Farms above 1 hectare account for 26.6% of the total, compared to 23% in 2003, and they cultivate 95% of the utilised agricultural area. The number of livestock farms has declined by 21% from 2003 to 2005 and the number of animals per farm has increased (by 11.6% for cattle, 21.6% for dairy cows, and between 17% and 20% for pigs, sheep and goats).

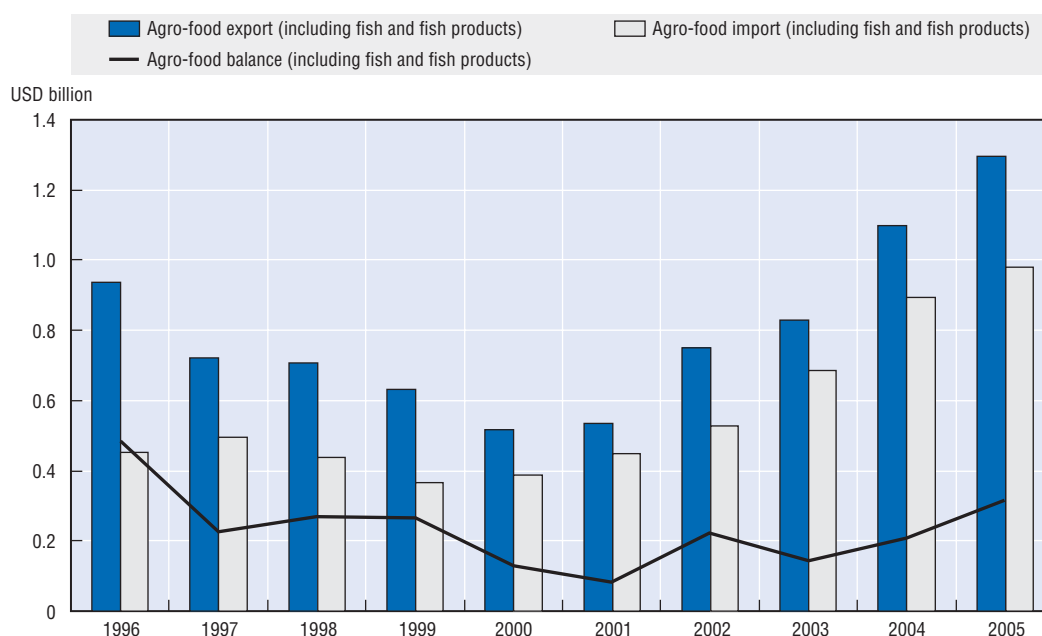
Inputs

Fertiliser application per hectare fell sharply in the early 90s. It has increased in 2004 and 2005, to 35 kg of nitrogen (N), 7.5 kg of phosphate (P_2O_5) and 0.85 kg of potassium (K_2O) per hectare, but remains much lower than in the late 80s, when the respective rates of application were 90, 50 and 20 kg per hectare.


Agro-food trade flows

Bulgaria has been a net exporter of agricultural and food products over the whole period of transition (Figure 3.5). Agro-food net exports have increased in both volume and value in 2004 and 2005. Agro-food exports have increased by over 50% from 2001 to 2005. Bulgaria's major agro-food exports are cereals, sunflower seeds, oriental tobacco, wine and sheepmeat, which account for about 25%-30% of the value of agricultural exports (8%-10% for sunflower seeds, 5%-7% for tobacco 5%-7% and 4%-6% for wine). Processed products (HS Chapters 15 to 24) account for around half of agricultural exports, crops (HS Chapters 6 to 14) for about 35% and animal products for only 17.5%. Two-thirds of Bulgaria's agro-food exports (in value terms) are to OECD countries, mainly the EU, but also Turkey. Among EU member states, Greece is the main partner.

Imports of agricultural and food products have more than doubled from 2001 to 2005. The major commodity imports are: meats and edible offal (13% of total agro-food imports); sugar and sugar products, 9%; oil and fats, 7%; and fruits, 6%. The shares of import from the EU and from other OECD countries remained relatively constant, while the share of imports from the CEFTA and NIS countries has slightly increased. Half of Bulgaria's agro-food imports come from the EU, notably Greece (10% of total agro-food imports). Brazil accounted for 18% of Bulgaria's agro-food imports in 2005.

Figure 3.5. **Agro-food trade in Bulgaria, 1996-2005**

Source: UN, UN Comtrade database, 2006.

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Domestic agricultural policies

The main instruments for domestic support are output and area payments, credit subsidies for short and long term credit, variable input subsidies, and support under the SAPARD programme in respect of the National Rural Development Plan (see Box 3.1 for a general description of SAPARD).

Commodity specific support

There is no price intervention in Bulgaria except for tobacco and wheat. Legislation for intervention on the domestic market was introduced in 2002 (Decree 198/29.08.2002 of the Council of Ministers). Intervention in this framework, has so far been restricted to wheat. Wheat intervention purchase started at the end of 2002 and amounted to 120 000 tonnes. In practice, intervention was carried out through the Sofia Commodity Exchange. Initially, quotas were established by region and a list of producers, who could sell wheat to intervention, was set. These restrictions were removed in November 2002. The intervention price was fixed at BGN 160 (EUR 82) per tonne (VAT excluded).

A more detailed regulation establishing rules for intervention was adopted in July 2003. It covers the rules for interventions on agricultural markets and products for which intervention is allowed (durum and soft wheat, maize, barley, sorghum, beef, veal and pork carcasses). Under this regulation, State Fund Agriculture, the organisation that is implementing domestic agricultural policy measures, is to act as intervention and paying agency. It is to announce the list of products covered by intervention, the quantities to be bought or sold, the minimum purchase prices, the intervention periods and other requirements for quality, storage capacity etc. The control of grain quality is assigned to the National Grain Service. This regulation has not been used for any eligible commodity except wheat.

In 2003 intervention stocks were sold on the domestic market to slow down the rise in wheat prices resulting from the 2003 bad harvest. Ivanova (2004) found that intervention in 2002 and 2003 did not have any impact on domestic prices and did not achieve expected results. Intervention purchase resumed following the 2004 good harvest, and again at the beginning of 2006 with 150 000 tonnes in January and 42 000 tonnes in March, at a price of BGN 175 (EUR 89) per tonne. Wheat intervention purchases were announced in September 2006 for 113 000 tonnes of wheat at a price of BGN 200 (EUR 102) per tonne.

According to the Tobacco Act, domestic market measures on tobacco consist of production quotas for different type of tobacco (oriental tobacco, Burley and Virginia), fixed minimum prices for the three quality category and three types of price premiums. The first type of tobacco premium is a price subsidy, the second type is a payment per tonne of tobacco sold and the third type is an additional quality premium, which was introduced in 2001. In recent years, the national quota has regularly increased, with quotas, minimum prices and payments set by type of tobacco. In the context of the reduction of world tobacco consumption, minimum prices have been constant in 2002. In contrast, all types of tobacco premiums increased till 2003. For the 2004 harvest, the price subsidy and premium per tonne sold declined while the premium for quality increased for Oriental tobacco. As a result, the average per tonne support of the three types of tobacco has increased until 2004. In spite of the increase in the price subsidy in 2005, the decrease in prices of Oriental tobacco continues, while the prices of Virginia and Burley increased by 3% and 8% respectively. As a result, the quantity of tobacco sold increased in 2003-04 compared to the 2000-02 average and in 2004 it reached 58 800 tonnes which is above the negotiated quantities with the EU (47 137 tonnes).

A payment per tonne of quality milk sold to the market was introduced in 2001. Payment rates increased, starting from BGN 0.03 (EUR 0.015) per litre for cow milk in 2002 to BGN 0.05 (EUR 0.026) per litre in 2005; from BGN 0.04 (EUR 0.02) per litre in 2002 to BGN 0.07 (EUR 0.036) per litre in 2005 for buffalo milk; and BGN 0.07 (EUR 0.036) per litre for the period 2003-05 for sheep milk. The payment is restricted to farmers with more than 200 cows and milk producers in under-developed and under-populated mountain regions. Funds amounted to BGN 9 million (EUR 4.6 million) in 2005 compared to BGN 8 million (EUR 4.1 million) in 2004.

Payments based on area

A per hectare payment for the cultivation of abandoned private agricultural land was introduced in 2003. Its rate was BGN 100 (EUR 51) per hectare from 2003 to 2005. As a result, 24 300 additional hectares were cultivated in 2003 and approximately the same area the following year.

In 2005, Less-Favoured Area (LFA) payments were introduced on a pilot basis in six regions with different production pattern on a pilot basis. The following rates were applied:

- BGN 300 (EUR 153) per hectare for producers not members of any producers group.
- BGN 320 (EUR 164) per hectare for young producers.
- BGN 340 (EUR 174) per hectare for members of any producers group.

The first results of implementation showed that only 25% of the funds allocated to this programme are going to be spent.

Payments based on input use

Farmers are offered low interest rates for short term credit, and subsidies for seeds, fertilisers and diesel fuel. There is also a subsidy for storage of wheat in public warehouses. The importance of interest concession as a mechanism of input support has declined, but is still in use. Interest concessions for the purchase of variable inputs are being replaced by direct input subsidies. In practice, only credit subsidies for buying fertilisers for wheat, maize and sunflower remain. In 2005, diesel fuel subsidies were granted to wheat producers at a rate of BGN 10 (EUR 5.1) per hectare of land and subsidies to cover storage costs of bread-wheat producers were increased by BGN 0.30 (EUR 0.15) per tonne per month to BGN 1.50 (EUR 0.77).

In 2004, a payment of BGN 250 (EUR 128) per hectare was introduced for wheat and barley basic seeds production within the Institutes of the National Centre for Agricultural Science. The amount of money spent for supplying seeds to tobacco producers has increased over the years. In 2004, it was BGN 2.3 million (EUR 1.18 million), of which BGN 0.97 million (EUR 0.50 million) for variety maintenance and BGN 1.3 million (EUR 0.53 million) for seed production.

Funds of BGN 170 million (EUR 87 million) were made available for disaster relief in the regions affected by torrential rain and floods in 2005. An additional BGN 5 million (EUR 2.5 million) was granted to farmers affected by floods in the form of higher sowing payments for the 2006 crop year. In October 2005, the Minister announced an increase in sowing aid to wheat producers by BGN 10 million to a total of BGN 43.1 million (EUR 22 million) to alleviate income losses due to unfavourable weather conditions, price stagnation and rising oil prices. For the autumn 2006 campaign, farmers will receive a payment of BGN 30 (EUR 15.3) per hectare plus BGN 60 (EUR 30.1) per hectare paid as a one-year loan at annual interest rate of 1.5%. The loans will amount to some BGN 27.5 million (EUR 14.1 million). The State Agricultural fund will provide an additional BGN 2.873 million (EUR 1.47 million) for the autumn sowing campaign (BGN 1.673 million or EUR 0.86 million for fertiliser subsidies at a rate of BGN 6.5 or EUR 3.3 per hectare and a payment of BGN 20 or EUR 10.2 per hectare to cover sowing costs).

The following payments to livestock farmers were introduced in recent years:

- A payment for the maintenance of animals and poultry birds from the National Gene Pool and high quality part of the animal population.
- A payment per head, introduced in 2003, for covering part of the costs of feeding cattle, sheep, goat and birds in the winter period.
- A payment for elite animals and birds for replacing the National Gene Pool.
- A payment for livestock in Rodopi region introduced in 2003 (under the Rodopi programme).

The rate of the payment for covering part of feed costs for cattle, sheep and goat increased substantially in 2005 compared to the previous year. The payment rate for elite animals and birds also increased in 2005. Only heifers (milk breed) and young female sheep (meat breed) are included in this programme. The payment only applied to a limited quantity of animals (60 head for heifers per producer and 250 heads for young female sheep per producer).

Several programmes of investment loans with interest concessions are offered to farmers. Their importance has decreased with the reduction in interest rate on credit from commercial banks.

SAPARD

Support to the agricultural producers and to rural regions in the country under the EU SAPARD programme (Box 3.1) started in 2001 with three measures: investment in agricultural holdings, improvement of processing and marketing of agricultural and fishery products, and development and diversification of activities. In 2003 the National Agricultural and Rural Development Plan was amended and the SAPARD Agency was authorised to implement the following six measures and one sub-measure of the plan:

- Markets of producers and wholesale markets.
- Forestry, afforestation of agricultural land, investment in forest holdings, processing and marketing of forestry products.
- Setting up of producer organisations.
- Renovation and development of villages, protection and preservation of rural heritage and cultural traditions.
- Development and improvement of rural infrastructure.
- Improvement of qualification through vocational training.
- Technical assistance.

Support for investments in agricultural holdings and for the improvement of processing and marketing of agricultural and fishery products increased, but only one project was approved for “wholesale markets and markets places”. The biggest share of investments under “Development and diversification of activities” was utilised in the field of rural tourism. Some funds were also spent for wood processing, beekeeping and aquacultures, but investments under other measures were relatively limited in respect to both the number of projects and the amount of funds.

Pest and disease control

Bulgaria was affected by several outbreaks of swine fever in 2005 and 2006. The Bulgarian government introduced vaccination and controls on the movement of pigs. Pigs on the affected farms were culled.

Poultry producers who have suffered significant losses resulting from bird flu outbreaks and the related decrease in poultry consumption will receive partial compensation. An initial BGN 10 million (EUR 5.1 million) fund was announced in February 2006. It was supplemented with BGN 3 million (EUR 1.53 million) in July, from which individual farmers will receive nearly BGN 2.3 million (EUR 1.18 million). Measures to contain the July 2006 bird flu outbreak include the setting of a quarantine zone from 27 July to 10 August 2006, the culling of 1 500 chickens, hens and turkeys in the affected area and a payment to farmers of BGN 10 (EUR 5.1) per destroyed chicken and BGN 25 (EUR 12.8) per destroyed turkey.

Box 3.1. The EU SAPARD in Bulgaria

The SAPARD (Special Accession Programme for Agriculture and Rural Development) is a EU programme, which provides financial and technical assistance for agriculture and rural development in candidate countries as they prepare for EU accession. SAPARD funds investment projects:

Priorities for SAPARD assistance include:

- Implementing the Community acquis (*Acquis communautaire*) [cf. Article 2 of Regulation 1268/1999].
- Implementing veterinary, phytosanitary and marketing requirements.
- Upgrading food processing standards.
- Restructuring the agri-food sector to improve competitiveness.
- Implementing coherent structural and rural development policies.

SAPARD eligible measures include:

- Investments in agricultural holdings.
- Improving processing and marketing.
- Improving structures for quality, veterinary and plant-health controls.
- Agricultural production methods protecting environment and maintaining the countryside.
- Economic diversification.
- Setting-up farm relief and farm management services.
- Setting-up producer groups.
- Renovation and development of villages.
- Land improvement and re-parcelling.
- Creating and updating land registers.
- Improving vocational training.
- Developing and improving rural infrastructure.
- Water resource management.
- Forestry measures.
- Technical assistance.

SAPARD implementation: Candidate countries first submit to the Commission for approval a multi-year SAPARD plan, which identifies the specific measures chosen by the country among the list of measures eligible for funding under SAPARD. The country's SAPARD agency selects and manages projects, arranges finance and carries out controls. All projects are co-financed by the EU and the candidate country. EU contribution may reach 75% of public financing. For investments generating revenues, the minimum rate for private investment is 50%.

Source: EU Commission website: http://ec.europa.eu/agriculture/external/enlarge/back/sapard_en.pdf.

Institutional changes related to EU accession

Bulgaria signed the Treaty of accession to the EU in April 2005. It was ratified by Parliament in May 2005. In September 2006, the EU Commission gave the green light for Bulgaria's accession to the EU on 1 January 2007.

In the summer of 2005 preparation of the Act for the implementation of the EU Single Area Payment Scheme (SAPS) in Bulgaria started. For this purpose, five working groups were created to deal with issues concerning the paying and intervention agency [conditions for accreditation, regulations for farmers application, internal control, regulations for the Integrated Administration and Control System (IACS), etc.], direct support implementation and top-up payments, horizontal problems (export subsidy, export/import licensing, etc.), market organisation, coordination with rural development regulation measures. At the beginning of 2006 the legislation was voted in the Parliament. It clarified that State Fund Agriculture will play the role of both intervention agency and paying agency. The paying agency was constituted, and the staff was appointed and partially trained.

Two different options for the minimum size of farms eligible for direct payments have been considered: 1 hectare of agricultural utilised area; or a combination of 1 hectare of agricultural utilised area or 0.5 hectare of vineyards or perennial crops.

Data on individual milk production and other data necessary for implementing the milk quota started to be collected at the end of 2004. An initial distribution of the milk quota among producers has been done, but no information is publicly available yet.

Box 3.2. Introducing the Common Agricultural Policy in Bulgaria

Bulgaria will enter the EU in January 2007. It will join the Common Market and adopt the EU trade regime, as well as domestic measures of the Common Agricultural Policy (CAP).

In addition to market price support measures such as import protection, export subsidies and intervention on the domestic market, the main budgetary measures available to Bulgaria are:

- Direct payments, at a rate of 25% of the EU15 level in 2007, rising by steps to 100% in 2016. During a transition period of a maximum of five years, direct payments can be implemented as a uniform payment per hectare, the Single Area Payment Scheme (SAPS). The Single Payment Scheme (SPS) currently implemented in the EU15 will then apply.
- Possibility to top-up payments (until EU15 rate is reached) according to two options: 1) up to 55% of EU15 level in 2007, rising by steps to 100% as from 2010; 2) up to the direct support level applicable in 2006 under a CAP-like national scheme, on a product-by-product basis, and increased by 10 percentage points. Top-up payments can be partially funded (20% on average) under the rural development envelop. The remaining share may only come from national budgets.
- Measures under the national Rural Development Plan, replacing SAPARD. Bulgaria will have to choose between a list of measures such as less-favoured area payments, agri-environmental payments, investments in farm holdings, etc. As for member states which entered the EU in 2004, additional specific measures will be available: Special support to semi-subsistence farmers undergoing restructuring; support for meeting EU standards for food safety, animal welfare and the environment; and the possibility to co-finance top-up payments.

Bulgaria will have to adapt to EU sanitary and phytosanitary standards. Transitional arrangements have been agreed until 31 December 2009 concerning milk deliveries.

* The overall ceiling for market expenditures and direct payment decided for the EU25 will apply for the EU27. Source: Commission of the European Communities (2005), *Report on the Results of the Negotiations on the Accession of Bulgaria and Romania to the European Union*, DG E I 5859/05, February.

In 2005, Bulgaria's parliament passed a law banning the production of some genetically modified organisms, which are banned in the EU, and harmonising the national legislation with that of the EU.

Budget plan

Expenditures on agriculture in 2006 were expected to increase by BGN 26 million (EUR 13.3 million) to reach some BGN 660 million (EUR 338 million). Substantial government spending will be earmarked for purchasing computer equipment for the administrative control information system and the building-up of a register of farms and processing enterprises, which will be maintained by the National Veterinary Service. SAPARD funds for 2006 total BGN 161 million (EUR 82.44 million) compared to BGN 147 million (EUR 75.09 million) in 2005. Because of delays in implementing SAPARD, BGN 577 million (EUR 295 million) of SAPARD funds were still available before the end of the implementation period in December 2006. Over BGN 208 million (EUR 106 million) have been allotted for the modernisation of milk, meat and fish processing. Animal farms, which are falling behind in their implementation of EU standards, will receive BGN 74 million (EUR 38 million) (*AgraFood East Europe*, February 2006).

Agro-food trade policies

In response to animal disease outbreaks, a number of temporary import bans were implemented. In April 2005, Bulgaria banned imports of poultry meat, eggs and live birds from regions of Greece affected by Newcastle disease. In late 2005, it introduced bans on poultry imports from countries affected by bird flu. Following a bird flu outbreak in a region of Bulgaria, Bulgarian veterinary authorities placed a temporary export ban on exports of live birds, eggs and poultry products, which have not undergone thermal treatment at the end of July 2006, until the EU issues an import ban. In March 2006, Bulgaria banned imports of poultry, wild birds, poultry meat and eggs from parts of the EU affected by bird flu.

A temporary ban on exports of wheat and wheat flour was introduced in September 2003, in connection with the rapid rise in world prices for wheat (Decree 193/05.09.2003). In 2002, import tariffs were set to zero for wheat and to 25% for wheat flour (Decree 285/09.12.2002). The ban on exports was removed in July 2004, while the zero tariff for wheat remained until the end of 2004. No export restrictions have been used for other products (except very temporarily for sanitary reasons, see below), and import tariffs are below bound rates.

In an attempt to introduce EU Common Market Organisation measures, a legislation establishing export subsidies was introduced in 2002. By the end of 2004 export subsidies were used for poultry meat (120 tonnes), eggs (500 tonnes), lamb (250 tonnes), dairy products (300 tonnes) and canned fruit and vegetables (1 462 tonnes). They amounted to BGN 668 thousand (EUR 341 800) and are below Bulgaria's commitment to WTO. Subsidised exports are carried out on the basis of export licenses and in accordance with the requirements of the Regulation for issuing the export licenses and Regulation for export subsidy refund.

Integration into the EU single market continued with the establishment of duty-free tariff quotas for imports of pigmeat, poultry meat and skim milk powder from the EU from 2005/06. However, in May 2006 Bulgaria imposed a limit of 3 000 tonnes quarterly on imports of milk powder and cream from the EU, which will be lifted at the time of accession. The tariff quota for sugar was increased to 320 000 tonnes in 2005 (50 000 tonnes in May 2005 and 20 000 tonnes in December 2005). The in-quota tariff is 5%.

Box 3.3. Bulgaria's trade agreements

In preparation for accession in January 2007, a number of “double profit” trade agreements have been signed with the EU since 1995, as well as with countries, which joined the EU in May 2004.

In 2003 a new trade agreement between Bulgaria and the EU was signed. Cereals, beef, pigmeat, fruits and vegetables are among the key products covered by the agreement. The EU established import quotas, which will increase by 10% a year, at a zero tariff for cereals from Bulgaria. Reciprocally, Bulgaria established import quotas for cereals, rice and sugar from the EU, with zero or lower tariffs. The EU can also export 3 000 tonnes of milk to Bulgaria with a 10% tariff, and 3 000 tonnes of cheese with a zero tariff. As a result, Most-Favoured Nation (MFN) tariffs on both sides declined gradually as the list of products with zero duties increased.

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