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BULGARIAN AGRICULTURE IN EU – OPPORTUNITIES FOR DEVELOPMENT AND RESTRICTIONS

In the article opportunities and challenges are examined faced by Bulgarian agriculture after the integration into the EU, related to the general membership conditions and the expected CAP development; on this ground conclusions are made for the agricultural country policy in the period immediately before and after the membership date. Long-term and middle-term aspects of agricultural development are examined in view of the globalization processes of the world economy, prognostics for the demand for food products for a 30-years period and the European model of agriculture in construction.

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Bulgaria is among the European countries where agriculture accounts for a considerable part of the GDP and the employment in the national economy. Agriculture is also of pivotal importance for the economic status of rural regions. From this point of view for Bulgaria it is a matter of great import to utilize the agricultural country potential as a base for the augmentation both of the improvement of agricultural producers and for the rural regions development. For the achievement of this goal it is very important to step up the competitiveness of the sector, which has to be examined in view of the application of the CAP of EU, with regard to the future membership of the country in the EU.

Trends for the world agriculture development

Processes of globalization of the world agricultural production globalization

In contrast to the secondary and tertiary sectors, the globalization of agricultural production is expressed mostly in the world trade with agricultural products development. The high tariff and non-tariff protection, the domestic production support and the exportation subsidies lead to a price-reduction and instability on the European markets. The deterioration in well-being due to irrational resources allocation is important. The consequences are most unfavorable for the developing countries, which are not allowed to support their economies because of the low GDP per person. A considerable part of them become very dependent on the food goods importation. At the same time the lack of rules in the trade led to further misunderstandings between some countries and groups of countries. The agreements reached by the Uruguay circle negotiations on the WTO line contributed almost nothing to overcome the imposed situation. The main reason is that the contracts in trade liberalization are based on the historical low level of protection and support. In result the general support for agriculture in the rich countries for 1998-2000 is higher than before the agreements.

Several researches indicate that the general agricultural goods trade liberalization would provoke a considerable increase in the well-being, but also

there would be losing population groups and countries. Taxpayers are supposed to profit as well as the consumers in rich countries and the developing countries – net exporters of agricultural goods. At the same time the consumers from the towns and these without land property from the villages in the poor countries will lose. The total positive effect is estimated at US\$165 billion yearly; $\frac{3}{4}$ of this sum will remain in developed countries.

Because of the insignificant domestic production support and the lack of exportation subsidies and also because Bulgaria is a net exporter, the country is interested in considerable liberalization of the agricultural products trade. At the same time the pending membership signifies that the country has to stand up for its interests within the framework of the common European position.

The EU position in the Doha circle negotiations in the framework of the WTO could be summarized in the following points:

- The total liberalization of the trade in agricultural goods is unacceptable;
- The EU is ready to negotiate on an important diminution of the most disturbing trade measures – exportation subsidies and also on “discipline” in the domestic support;
- Preferential trade regimes for the developing countries. The EU agrees to introduce tax-free quotas access to its domestic market for the 49 most underdeveloped countries after 2009;
- Maintain of the subsidies that are not directly related to the production volume, motivated by the multifunctional agriculture rule and by the qualitative production.

The EU position coincides with the Bulgarian interests on condition that Bulgarian producers have equal access to the agricultural supports from CAP.

All grounds are available to expect a stabilization of trade conditions on the ground of the considerable reduction in exportation subsidies for a middle-term period (15-20 years). Simultaneously the level of domestic farm support in the developed countries will remain relatively high as well as the level of the tariff protection. The world trade volume of agricultural products will increase with the most important importers being countries in development and Russia. The place of China and India is not sufficiently clear because of the change of the alimentary preferences of these countries.

Long-term prospective for the world agriculture development

Definitive factor for the world agricultural production amount is the demand for alimentary products. From this point of view it is important to notify the fact that the global demand continues to increase but with slowing rates. For the period 1970-90 the demand has increased by 2.4% yearly on the average, for the decade 1990-99 – by 2%. Excluding the effect of a temporary phenomena (the diminution of the consumption in the countries in transition after 1990) this trend is due to the sustainable influence of two factors:

- Reduction in the world population increasing rate, which after the reaching of its apogee at the end of 1960-s years (2% per year) slows down;
- Increase in part of the world population reached relatively high consumption level, in result – the space for the further increase is restricted.

The marked development trends will persist also in the next three decades. The prognostics indicate the augmentation of the world population by 1.1% yearly (till 2030) as against 1.75% in the past 30 years. In result from this the demand for agricultural products is expected to go down by up to 1.6% yearly till 2015 and up to 1.4% from 2015 till 2030 (all data are from the FAO report, www.fao.org, January 21, 2005)

Apart from the population rate, the food products demand depends also on the reached level of daily food consumption. In 1999 61% of the world population live in countries with an index of 2,700 kilocalories daily consumption. Countries that have decisive importance for the demand because of the number of their population, first of all China, have successfully resolved the problem of securing food. The average daily consumption of this country is over 3.050 kilocalories. To a great extent this concerns also India, Indonesia, Pakistan and Iran – countries with a numerous and fast growing population. Meanwhile the hopes that India would become the new motor of the demand could be hardly justified because of the restricted changes in the food preferences, despite the considerable increase in the incomes per person.

The actual prognoses indicate that till 2030 the agricultural trade deficit of developing countries will continue to increase. The net importation of cereal and stockbreeding products will increase relatively fast due to changes in the consumption structure resulting from the augmentation of the GDP per person.

FAO and OECD consider that in a global aspect the producers have succeeded to satisfy the effective market demand in the past and we have enough reasons to expect the same in the future. It is important to notify that in spite of the augmentation of the world population – two times in the period 1960-2000, simultaneously the level of alimentation is considerably improved and there is a price-reduction by 60% on the average of rice, wheat and maize – the main world trade products. This fact itself comes to prove that the supply has outstripped the demand because of the yield increase as a main factor. But we have to notify that the effective demand does not respond to the food and other agricultural products necessity due to the poverty of millions of people. This is the reason for the existing problems with securing food both at household and national levels, despite the presence of sufficient production potential in the world as a whole. In the urban regions this is a result from the low incomes, whereas in the rural regions this is a consequence of production problems. The most problematic region regarding to hunger and the undernourishment remain the African countries in the south of Sahara.

The FAO prognoses indicate that in a long-term aspect the agricultural production in the developing countries will increase, reaching higher rates of

comparison in the developed countries. Meanwhile the developing countries will increase the food product importation amount. The developed countries, including the EU, due to the restricted growth in domestic consumption and their competitive advantages in certain spheres, would increase the agricultural production exportation, predominantly of cereals, milk and dairy products.

European model of agriculture. Common agricultural policy of the EU

European agriculture – main characteristics

The successful integration of Bulgarian agriculture will depend to a great extent on the knowledge of the character and the particularities of European agriculture.

First of all we have to notify that the agricultural surface per person, even in the enlarged Union, is considerably smaller than that in countries such as USA, Brazil, Argentina, Australia, Canada, etc. Despite certain conventionality of this index that does not give account of climatic conditions, it underlines the unfavourable position of the EU regarding the basic production factor in agriculture – the land. It is obvious that in a completely liberalized trade environment, the European agriculture as a whole will find itself under a strong competitive pressure. The relatively weak agricultural potential explains the protectionist policy toward the sector. Europe could neither afford to be strongly dependent on the food products exportation, nor to doom rural regions to a decline and the centenary natural environment to decay.

The political aim – achievement of self-sufficiency with food products with a relatively small agricultural surface per person – has led to a creation of high-intensive production. The production per hectare in the EU is considerably higher than the production in other countries with a similar production structure. At the same time the production costs for the most of the products are higher, that means the production on these scales could not be maintained without state support.

The second definitive characteristic of European agriculture, at least of the agriculture of the 15 member states, is that it is founded on farms with a predominantly family organization of production and labour. From its creation the EU declare the support for family farms. This does not mean that the structural policy obstructed the natural processes of farm enlargement. Despite this, the average size of farms is relatively small – bellow 20.0 hectares each. The vitality of these farms is based on their capacity to diversify the sources of incomes and on the keeping of the rural communities as natural surroundings for the occupied in the agriculture persons. Several observers consider that this model of development is more successful or at least, more acceptable from social and ecological point of view compared to the American model, based on big industrial specialized farms. The keeping of farm exploitations is a way for preserving the cultural patrimonies and traditions of European populations.

It is important to underline that European continent suggests big variety of natural conditions supposing a large-scale production of agricultural products. The enlargement of the EU will create new possibilities for the enriching of the “diet” of the European citizens.

And last, we could not ignore the fact that the European model of agriculture is formed in high-developed countries, namely in countries that could afford to support the sector development. The diminution of the part of agriculture in the GDP, the employment and the consumer’ expenses reduce the budget burden and other expenses for support. Simultaneously the attained level of securing food (the access to food) led regularly to the emergence of new accents in agricultural policy.

The globalization of the world trade, the increasing exigencies of the consumers toward the food products, the concern for preserving of the natural environment and the enlargement of the EU are the new challenges before European agriculture. In the last years the focus of the European agricultural policy is moving from the market regulations to the purposeful support in response to the increasing social exigencies towards securing food, the quality of environment and the preservation of the nature and the rural surrounding. This means that the time of efforts for the augmentation of production is passed away and today the European society has other expectations for the agriculture. Regularly CAP of the EU is oriented toward the construction of more sustainable agriculture, i.e. toward an agriculture that gives account of the necessities of future generations. To attain the sustainability means: (1) reinforce the competitiveness of the sector, (2) confirm ecological production practices, and (3) ameliorate the living conditions and economic opportunities in rural regions. In fact, this leads to interrupting the relation between the subsidies and the production amount, which would make the production more market-oriented and competitive and at the same time would secure the necessary income stability. At the same time as a response to ecological and social challenges, the reception of agricultural aids would not be unconditioned and would depend on the so-called “good agricultural practices”.

It is necessary to consider also that the different dimensions of the sustainable development could not be conformed easily. The multiple regulations could worsen the competitive positions of European agriculture, particularly in progressive trade liberalization conditions. The globalization of the food industry and the trade impose their exigencies concerning the control of the quality of proposed products. From this point of view the creation of the simplified and effective regulating environment for the agri-food sector has an essential importance for the competitiveness of European producers. The building of a self-control system in the nutritional chain as a result of market factors’ action is a possible response to this challenge.

The EU enlargement and development of European agriculture

The negotiations for EU membership with the aspiring countries were very hard and prolonged in the sphere of agriculture. The reasons for this are well-

known – the complex, expensive and frequently contradictory CAP of the Union; the big relative part of agriculture in the candidates' economy regarding the GDP and the employment; the big political burden of the agricultural lobby in the 15 member states. Regularly the problem is taken into consideration by the researchers – there are multiple analyses but their common feature is that they are based on very moderate provisions for the change of the operating CAP. These are in want of analyses of the new opportunities, created by the enlargement in the East, for the European agriculture development. These opportunities are completely compatible with the attainment of the policy aims, formulated in "Program 2000".

Expressing their position toward the challenges before the CAP as a result from the enlargement, the EU authors accept as non-doubtfully the following:

- -The liberalization of the world trade with agricultural goods in a mid-term aspect will be moderate;
- -There are not political conditions for principle reforming of CAP in the present member states;
- -The main points of the actual CAP are inviolable in the near future;
- -The hardness of the arising problems will be at the expense of the present member states;
- -The successful adaptation of the aspirants to the established rules depends first of all on their own efforts.

Logically, the question for the profit of the Union in the agricultural field from the enlargement process in the East was not raised. Nevertheless, is there such a potential profit and could it be realized?

Firstly, what is valid for the economy as a whole, applies to agriculture too, in a long-term aspect the enlargement process is doubtlessly economically profitable for the Union as a result from the creation of common agricultural space with almost 500 millions of consumers. With the liberalization of good markets and the production factors the general rules for the economic activities and the common currency will secure a more rational resource distribution, realization of savings and boosting of the competitiveness ("Program 2000", part II). Opportunity is hold out for a new production cooperation, based on the comparative advantages of the different countries.

Secondly, the enlargement will create economic conditions for overcoming of the unjustified differences in the agricultural production intensification. It will allow the countries from West Europe to reduce the agricultural land loading with fertilizers, crop protection agents, mechanization, etc., and to switch to more convenient to the natural conditions and the economic realities, crop-rotation and product structures. In this way the enlargement in the East will contribute naturally to the realization of the declared by the EU goal to develop ecologically-friendly-oriented agriculture.

Thirdly, the most serious apprehensions of the present member states are triggered by the considerable size and the low price of the labour force from the

aspiring countries. This is believed to be almost a "social dumping" on the part of the East- and Central-European countries.

Be the issue was considered from the point of view of the consumers, i.e. of the majority of EU citizens, the cheap labour force would be an advantage because it would ensure the effectiveness and the competitiveness of European agriculture, particularly for the sub-sectors in need of many workers. Apart from that, the East-Europeans will produce in their own countries, i.e. this would be a factor to avert the mass immigration to the West, which is a very dangerous phenomenon at present.

For the Central- and East-European countries the full-value use of their labour potential in agriculture would allow more painless adaptation to and preservation of traditional ways of life and cultures in rural regions.

On the fourth place, capital insurance in agriculture in the countries from Central and East Europe is considerably lower than in the EU. The stable economic conditions and the more effective production will allow the augmentation of investments in production sector and also in the rural regions development. This will create new opportunities for the production cooperation and the product exchange and investors' development.

On the fifth place, it is difficult to prognosticate the influence of the enlargement processes on the production structure of agriculture in Central- and East-European countries. The slow and often painful process of extension of farms looks inevitable for Poland, but this is not a case of general validity. In other countries the gross production based on capital societies, will retain its importance. The essential is that the new production structure is formed only under the impact of market forces. This is the factor defining the dualistic structure of agriculture in certain countries from Central and East Europe, composed by a sector of big exploitations specialized in cereal and industrial crops production, competitive on big compact surfaces; and sector of small farms specialized in animal-breeding and plant-growing productions in need of a number of workers, based on family labour organization. The complete agricultural restructuring in view of forming of a predominant sector of vital family farms will require big investments, so it will be an end in itself from the point of view of the achieved results. On the other hand, the entrepreneurs' development in agriculture would contribute to meeting the challenges posed by the inevitable, in a mid-term plan, liberalization of the trade in agricultural products.

Sixthly, food industry in countries from Central- and East-Europe is relatively non-competitive. This is due mainly to the weaknesses in qualitative characteristics, in sanitary and hygiene norms, the package and the marketing. Despite this we can expect a successful development of this branch, based on qualitative resources, cheap labour force, investments and new market opportunities. Consequently, this branch will generate durable capital demand, necessity that has to be covered mostly by the EU – 15. The same, possibly in a greater extent, could concern the agricultural infrastructure – transport,

communications, storehouses, markets, market-places, exchanges, irrigation, mechanization and other services, i.e. a new investment market opens.

In the period until the integration the balance of the agricultural goods trade between EU and the countries-candidates is positive for the Union. In spite of the asymmetric concessions, the advantage in the production, infrastructure, marketing and the state support in the EU countries predominate the cheaper production of Central- and East-European countries. This is especially typical of the trade in processed agricultural goods.

This status would hardly persist. Obviously, the inversion of the trend is possible only under condition of removing the barrier between the old and the new members. This will probably affect interests of producers from the present member state, but in the same time they would earn the big majority of consumers, i.e. the enlargement would improve the well-being in the framework of the EU.

The influence on the agricultural exportation is difficult to prognosticate, but we can expect that the countries from Central and East Europe will have relative advantages (at equal other conditions) regarding the exportation on the main foreign market – of Russia and other countries from the ex-Soviet Union. The demand on these markets is satisfied predominantly by the EU and its expensive, strongly subsidized production. The Central- and East-European countries can take the bigger part of this exportation by reason of their cheaper production and lower transport expenses.

And last, the expansion of the EU in the East will create conditions for reinforcement of competitive positions of European agriculture, stabilization of Central- and East-European countries and augmentation of the well-being in the framework of the whole Union. The realization of these favourable opportunities requires reevaluation of CAP. Its reforming must exclude the emplacement of new barriers between the old and the new members and discrimination as regards the agricultural producers' support. Only then CAP will become really common.

Common agricultural policy – principles, aim and development

The beginning of the CAP is announced with the agreement on the CEE creation. Historically, this is the first common policy of the EC and over the years it has played an important role for the progress of integration processes.

The main principles of CAP construction are:

- Unanimity for the agricultural market,
- Community preferences,
- Finance solidarity.

The principle of market unanimity means that agricultural goods can move freely, without any restrictions on the territory of the EU. Minimal product prices are introduced, maintained by intervention mechanisms. The aim is to protect production against cheap importation and insufficient demand.

The Community preferences mean that the preferential regime concerns whatever goods produced in the Community. The domestic production is protected

against competitive importation and world prices' fluctuation, particularly by the exportation – importation regime.

The principle of finance solidarity requires expenses for agricultural production support to be undertaken by the EU budget. All countries give financial payments and raised funds are laid out regardless of the financial contribution of each country.

We have to underline that CAP of the EU is based on both economic and social considerations. The first group of considerations defines aims such as increase in effectiveness, market stability etc.; while the second considerations aim to attaining fair living standards for those occupied in agriculture, i.e. level of life comparable to the other social groups, preservation of family farms and of rural communities as a whole.

The formulated in this way aims of CAP, are attained mostly through maintaining of agricultural goods' prices in the EU above their level on international markets. The agricultural producers' response to the favourable and stable price conditions is impressionable – from a chronic deficit of food products in the mid-1950s to an increasing overstock in the mid-1980s. The EU achieved self-sufficiency in terms of food products (obviously this is the dominating political aim in this sphere) and became one of the main exporters of agricultural goods. But these successes do not have a high economic price.

Firstly, the consumers and the taxpayers pay for the support. Despite the relatively low share of the food expenditures in the EU countries and the diminishing role of this share in the total consumers' expenses, from a macroeconomic point of view this means generally economic losses and delay of the economic growth. Secondly, the availability of big overstocks requires their realization on international markets by using big exportation subsidies. Similar practice suppresses prices and boost the world market instability, which blockades opportunities of the traditional countries – exporters. The surpluses have made inevitable the imposition of quantitative restrictions on the production, which results in big administrative expenses for their maintaining. Thirdly, the analyses indicate that production expenses absorb high domestic prices by their capitalization in the land price. And fourthly, the policy of prices' maintaining makes the big farms more competitive and strengthens the trend of production concentration.

The accumulating problems require a CAP change. After 1992 a transition from direct market support to a system with bigger role of direct subsidies (compensations) is in process of realization. The member states believe these changes to be successful and the necessity of their development is underlined (Madrid, 1995, EU).

The conceptual vision of the EU for the aims of CAP at the beginning of the 21st century is exposed in the document "Program 2000" (European Commission, Brussels, 1997) as follows:

- Increase in domestic and exterior competitiveness, which could allow European producers to take advantage of the positive development of world markets;
- The food safety and quality as fundamental duties to consumers;
- Securing fair living standards for agricultural communities and farm incomes stability;
- Integration of ecological policy' aims in CAP;
- Aid for the sustainable agriculture;
- Creation of alternative opportunities for work and incomes for the farmers and their families;
- Simplification of the legislation of the Union.

So formulated aims create opportunity for predomination of social problems and the problems related to the environment in CAP. Undoubtedly, the base of the EU agricultural policy will not change – preservation of the attained alimentary safety through a considerable support for agricultural producers. The changes affect the means and mechanisms of this support and they are provoked by the necessity to overcome accumulated domestic contradictions, through meeting the commitments made in regarding of the World Trade Organization and through the challenges of the EU enlargement in the East.

The achievement of the aims requires the creation of more market-oriented agriculture, i.e. liberation of the demand and the supply from excessive intervention and commitment of subsidies with the meeting of ecological standards for food quality.

The last CAP reform

The agreed upon decisions on CAP reforming, of June 2003, can be summarized in several points:

- Rationalization of production subsidizing system by introduction of only one farm payment, independently of the type of production;
- Commitment of payments with respect to standards for ecology, food safety, maintaining of health status of animals and plants and exigencies for agricultural lands conservation;
- Strengthening of policy for rural regions development by sparing more financial funds and introducing of new programs including for farmers aid to apply new production standards as of 2005;
- Diminution of direct payments to big farms (5% for subsidies over 5,000 euros) aiming at funds liberation for financing new policy concerning rural regions development;
- Introduction of mechanisms to guarantee the ceiling of financial expenses fixed till 2013;
- Reexamination of CAP market policy.

Changes concern the way of supporting of European agriculture. The aim is to get CAP closer to the interests of consumers and taxpayers, creating conditions

for market signals to define what and how much farmers have to produce. To achieve this, the bigger part of subsidies will be paid independently of the volume and the type of the production. These aids are not unconditioned, i.e. their payment is related to the respect of definite production standards. It is considered that the reform will make European farmers more competitive and market-oriented; at the same time it will keep the income stability and reinforce the EU position in the negotiation in the framework of WTO.

Undoubtedly, the reform overcomes some of weaknesses and contradictions of CAP. Simultaneously, by itself, *the reform does not mitigate the adaptation and integration of new countries-members' agriculture*, because:

- Consolidation of the support by separate products in single payment for a farm will allow farmers to define themselves what to produce. At the same time the size of subsidy will be defined on the basis of sums received in a definite base period – 2000-02. This means preservation of inequality of production support and economic losses because of irrational resource allocation. The consequences for the East-European countries are the most unfavourable because in the referent periods the agriculture is working with its natural potential;

- The commitment of aids with the respect of European standards for agricultural production and food safety, motivated by the responsibility to the consumers and the multifunctional role of agriculture, due to lack of experience and institutional capacity insufficiency, will bring to the fore the unfavourable situation of the producers as against these from the member states. Other problem is the hefty administrative expenses. The rational decision is the creation of integrated European agriculture with an equal position of farmers from particular countries. This would permit diminution of the land charge in West Europe and modernization of the sector in the new-integrated countries, i.e. creation of more competitive, ecologically-conform and socially-responsible agricultural production, which is the proclaimed aim of CAP;

- The pre-determined lower production competitiveness and the inevitable bureaucratization of the process embarrass the absorption of funds for rural regions' development in their part for production restructuring.

From the point of view of Central- and East-European countries the last CAP reform is estimated as a necessary positive step, creating conditions for more vital and competitive agricultural production. At the same time, its defining as a new era in agricultural policy is exaggerated.

Bulgarian agriculture in the EU – opportunities and challenges

Start positions

Agriculture accounts for 12-14% of the GDP of the country and about 25% of the total employment rate. The respective indices for EU-15 are 1.7% and 4.2%. In typical rural regions with a predominant agricultural sector live 40% of the population, while for the EU this index is 20%. Base for the agricultural production

in the EU are farm exploitations (average size of 18.7 ha), while production structures in Bulgaria are polarized – very big cooperative and leaseholder' farms on the one hand, and on the other, multiple small farms with predominantly domestic consumption.

The value volume of production per unit exploited land is 25% of the average for EU-15, which with some conventionality is indicative of the ineffective land use as a production factor because of the low average yields and productivity. Almost the same are the digits of the indices for labour productivity – 27% of the EU-15 level, resulting in the decapitalization in the sector and insufficient investments (IIAE, Prof. A. Simova). Data for the state support of agriculture (% of producers' incomes, formed of subsidies) are very indicative – considerable negative values for the period 1991-97, i.e. there is a seizure of incomes; 2-3% for 1998-2001. The insignificant support is the main reason for the strongly extensive character of production. Bulgaria is a typical example of a poor country, not because its agriculture is underdeveloped; the opposite: the agriculture is underdeveloped because the country is poor.

Indices demonstrate the importance of the sector for the national economy and the necessity of its modernization as well as the importance of the rural regions' development. The approaching EU membership poses the question for the perspectives for development of Bulgarian agriculture in the framework of the European model of agriculture. It is often repeated, particularly by our partners, that the positive answer depends mainly on our readiness to realize the potential of agriculture in the framework fixed by EU CAP, i.e. on the capacity to utilize the opened opportunities and to meet challenges of the future membership. The question is about the reality of these opportunities and if the obstacles are surmountable. The well-grounded response would allow to avoid disappointments and to concentrate efforts in the right direction.

Opportunities and challenges before the development

The opened opportunities can be resumed as follows:

- Stable economic conditions for the sector development. The question is of particular importance, because one of the main reasons for the agriculture decline in the last years is the considerable yearly fluctuations of farmers' prices and the incoherent sector policy. The CAP application foreseeing measures to secure market equivalence, incl. intervention purchases if need be, would stabilize producers' incomes. The clear market perspectives will improve conditions for business-planning and then, for the investments as a decisive instrument of modernization;
- Access for Bulgarian agricultural and processing sector to a huge domestic market of 500 millions of consumers having a big purchasing capacity;
- Presence of purposeful means for agriculture modernization from the EU funds for rural regions development. Under the SAPARD program for the period

2000-07 53 million euros per year are projected; the financial frame for the period 2007-09 foresees 733 million euros;

- Support for agriculture and diversification of economic activity in the so-called unfavourable (predominantly mountain) regions – a very topical issue for Bulgaria. After 2006 minimum 25% of the instruments for development of rural regions (i.e. II pillar) will be used for aids to farmers in the mountain regions and the regions with natural restrictions, also for support of agriecological production schemes;

- Introduction and progressive augmentation of the direct payments for agricultural producers will improve conditions for economic activity;

- Institutional strengthening and management improvement with the EU support.

Challenges are not less impressive:

- Incomparably increased domestic market means stronger competitiveness. Despite some relative advantages – lower land and labour prices and unique production conditions for certain products, in mid-term aspect the problems regarding the competitiveness are serious. They are result from the structural weaknesses in the wake of land property fragmentation and the lack of stable land use, also from the lower production support compared to the old member states (direct payments and national support).

- The application of standards for food safety, product quality and environment preservation will require considerable investments, including training of employed and effective services for agricultural consulting. In fact, meeting the European standards could become the biggest obstacle to the access of Bulgarian goods to the EU market.

- Construction of effectively functioning institutions and state administration. Because of the exclusive volume and complexity of regulations for the realization of CAP, this problem can not be underestimated – the opposite could result in non-absorption of funds for agricultural producers' support.

- While the challenges of the membership are completely real, the realization of opportunities is hypothetical in view of the proposed integration conditions for the newly admitted countries.

Conditions for integration

The integration negotiations could be called so only conventionally. *The negotiated conditions for integration of Bulgaria do not differ essentially from those for the ten countries, integrated in May 2004, namely:*

- 10-years' period for attainment of 100% level of direct payments at a starting level of 25% in 2007;

- Period of reference for the agricultural production 2000-02;

- Possibility for application of simplified system for direct payments;

- Increase in the funds for rural regions development;

- Opportunity for allocation of lower subsidies from national budgets.

The hopes that Bulgaria could protect *40% of the starting level of agricultural aids*, proved to be unrealistic. The problem is not only in the volume of aids, but also in the fact that Bulgarian agriculture will be in a weaker position compared to the 10 newly accepted countries for a 10-year period. Furthermore, most of them are closely situated and have similar production structure.

The strongly reduced access to the agricultural aids is a violation of the principle for a fair competition of Bulgarian producers. The statements that the payment in a full dimension of direct aids will blockade the necessary structure changes in the sector are unapproved at the least. The truth is that this will have serious and profound consequences for European agriculture. EU-15 are not ready for this. Undoubtedly, the creation of homogenized domestic market with equal conditions for each producer will create competitive environment and more rational resource allocation and higher well-being, which will be favourable to the majority of European producers. Also this step would naturally facilitate the making of a big step toward the production practices conformed to the environment preservation. Despite the obvious positive consequences, the transition to that sort of policy requires time for preparation.

The admitted reference period (2000-02) that in fact defines aids support is unfavourable to the country. In fact, Bulgarian producers will receive about 50% of the EU-15 aids because of the low agricultural production amounts in the basic period. The ramifications could be a blockade of the production for a long period. We have to admit that, regarding this question, European Commission would hardly compromise. *Bulgaria had all reasons to insist on taking into account the conditions during the reference (basic) period*, characterized by insignificant support and even seizure of incomes from agriculture, also by restricted consumption, hence *diminution of production volume much under its natural potential and historical level*. The consumption trends could be taken into consideration, as well as the necessity of measures to avoid a possibility of the country transformation in a net importer of goods, traditionally produced there.

Bulgaria will utilize the opportunity of introduction of *simplified system of direct subsidies*. For a period of 3 years the country would have the opportunity to pay the aids on the basis of cultivated agricultural land, which will reduce the administrative expenses and will be favourable for exploitations in so-called unfavourable regions. At the same time Bulgaria do not have clarity for the producers' attitude in these circumstances. We can expect that a part of them would be orientated toward the extensive productions, i.e. a part of the relative advantages of the country in the spheres of vegetable- and the fruit-growing, would not be realized.

As a compensation for the insufficient size of direct subsidies of the new countries-members, Bulgaria accepted the proposed *increase in developments' funds for rural regions*, mainly for the agricultural sector restructuring. We have to take into consideration that, unlike direct subsidies, these aids do not have unconventional character – only the approved projects are financed. The experience, not only here, demonstrates that, generally, the allotted funds are not

absorbed. In addition, co-financing from the country-payee is required, amounting to minimum 20%. Bulgaria could (still can) pose the question for a higher part of financing under these EU programmes. The country *faces the question of the most rational structuring of these funds*, aiming at a maximal effect.

Because of the insufficient budget *Bulgaria hardly could use*, in a considerable degree, the generously proposed opportunity for complement of direct subsidies with funds from national budgets.

The brief analysis allows to conclude that Bulgaria has received the general conditions for integration, announced by the European Commission.¹ The convention does not take into consideration conditions for agriculture development in the period after 1989. European policy in this sphere, till now, is oriented toward conservation of the status quo, strongly unfavourable to the country. The affirmations, that the considerable aids for agriculture are a big success, are ungrounded. For the country it is very important to realize unanimity of production conditions, i.e. of agricultural aids and to remove or renegotiate the production and support quotas, not the subsidies' volume. The justice requires admitting the difficulty to defend this position at this stage. But its assertion is unconditioned priority after the integration.

Bulgarian position regarding the CAP development

Such position could be declared, because the country already has a status of observer in the Council of Ministers of agriculture of the EU member states. It is unrealistic to expect that Bulgaria could influence, by itself, the formation of this policy, but the interests of the country require to give contribution to the creation of an integrate European agriculture securing equal positions of agricultural producers from the different member states.

At first place we have to underline that Bulgaria has interest on the keeping of CAP, i.e. on European agriculture development in the framework of uniform policy, creating general conditions for economic activity in the sector. In practice this means financing of this policy from the EU budget. The sector support by the national budgets and admitted exclusions from the application of the general rules must not lead to principles of fair competition violation.

Secondly, Bulgaria is for a CAP, unanimous for each country-member, without internal division lines. Furthermore, this is a condition for achievement of declared CAP aims – effective production, food safety, natural resources' conservation, etc. The equal access to agricultural support will be favourable to European consumers, because the new production co-operation will create conditions for improved well-being in the EU.

Thirdly, the bigger obstacle to the development of competitive market are the more and more strict exigencies of standardization, certification, phyto-sanitary and

¹ Communication from the Commission. Information Note. Common Financial Framework 2004-2006 for the Accession Negotiation, January 30th, 2002.

veterinary characteristics of agricultural goods. Bulgarian producers have to meet unconditionally their duties to secure food to European consumers. Simultaneously, these exigencies could have relatively stable character, and the sector has to receive the necessary support for adaptation to the normative regulations of the EU.

Fourthly, Bulgarian producers and the big majority of European consumers are interested in the creation of conditions for development of competitive agricultural production. This is impossible without progressive reduction or removing of existing production quotas and the commitment of the supports with restrictions on the agricultural land cultivation and agricultural animals' augmentation. Such practice is inconsistent with the formation of competitive market and also it would result in stagnation of Bulgarian agriculture, because of the low start level. Apart from this, there is a heavy problem with the administration of such a system in Bulgaria, because of the strong fragmentation of the agricultural production.

Immediate effects of the EU membership

Analysis of the impact of the membership conditions, including the use of economic and mathematic models, indicates that during the period up to 2012 (the financial CAP framework expire date) the agricultural production would not suffer dramatic changes (Ivanova, p. 96).

In general, restricted positive influence on almost all products is expected, especially in the group of the cereals rather than in the one of the animal production. The forecasts indicate that the producers' incomes will increase considerably (for Poland an increase is expected by 45% in 2009 as against 2002). Unlike the primary production, the food-processing sector will find itself in a complicated situation. Structural and technological weaknesses and hygiene and other exigencies probably would make a big part of firms non-competitive.

In conclusion, our membership in the EU would not be a "manna" for Bulgarian agriculture. Yet the catastrophic forecast made by pessimists or by persons, fearing or expecting losses in the wake of the changes, would not be realized, either.

First results of CAP application for the new members

Analysis of the first results of CAP application for the agriculture of Central- and East-European countries can be very useful to Bulgaria.

At this stage it is considered that the influence is positive, with certain reserves for Hungary. At the same time unfavourable trend is emerging – the process of transformation of Central- and East-European countries in exporters of agricultural raw materials and importers of processed products with high added value goes deeper, a phenomenon typical also of Bulgaria. We have to underline that the countries from Central and East Europe manage to maintain relatively competitive production due to considerable agriculture support from the national

budgets – up to 30 percent points above the 25% of the level of so-called direct payments (per hectare) in the countries of EU-15, financed by the Community budget. This opportunity is open for Bulgaria also, being a standard integration condition, but it is difficult to be realized because of the insufficient budget. The simple account indicates that for 2007 will be necessary about 500 million euros, approximately 7% of the national budget. So, unexpectedly on the face of it, the membership will underscore the unequal situation of Bulgarian agriculture in terms of production support. During the two years up to the integration, and the ten years after the admission, this situation will persist and would be decisive for the development of Bulgarian agriculture. The truth is that Bulgaria has considerable agricultural potential, but its realization is in direct dependence on the state production support.

We can already make some preliminary conclusions concerning the influence on the producers' attitude of the so-called simplified system of direct payments, applied in eight of the new countries-members (excluding Malta and Slovenia) and also for the motivation of the taken decisions in this relation. The countries of EU-15 will apply the so-called uniform payment, fixed on the basis of the farm revenues during a reference period in the past. The countries from Central and East Europe will avail themselves of the opportunity to pay these aids for the three-year period, per hectare of cultivated land (with the motif of easier administration and the lack of basis for their fixation per farm). A positive effect is expected from the farmers' liberty to produce what they decide depending on market signals. Risks are connected not so much to the production neglecting, but rather to the transition to more extensive productions, with a higher part of aids. Bulgarian agriculture does not need such development, because now it produces per hectare 25-30% of the production value compared to the EU countries. For the intensive productions – vegetable- and fruit-growing, in which Bulgaria has relative advantages and which have fairly higher relative part in agricultural production of the country, this aids' organization is unfavourable.

Regarding the structuring of supports by the II pillar, the Czech Republic and Slovakia preferred considerable support for their agriculture in the so-called unfavourable regions, while Poland focused on the sector restructuring and the support of smaller, but market-oriented farms. For Bulgaria the issue is also topical and the experience of new-integrated countries is of essential importance.

For the agricultural changes in the new-integrated countries and their rural regions is indicative the dynamic of incomes of agricultural producers. Preliminary analyses come to support the forecasts that all producers will profit, particularly the farmers from unfavourable regions. This is a logical consequence from the CAP reform, which in practice stimulates more extensive production methods. Forecasts indicate that for a 10-years period the incomes of agricultural producers are expected to go up by approximately 40-45%.

Agricultural policy of Bulgaria in a mid-term aspect

The pending Bulgaria's integration into the EU means that the main factor for the competitiveness and the vitality of Bulgarian agriculture is the successful application of CAP. In spite of this, the contracted membership conditions, by themselves, and even the complete CAP application could not guarantee the prosperity of Bulgarian agriculture. Every support, independently of its origin – from the EU or from the national budget, has its economic price and restrictions. Especially, as CAP concerns particularly the financial and the market aspects of agricultural policy. Other important issues, especially the structural problems of agricultural policy, remain national priorities. For that *the decisive factor for Bulgarian agriculture development is the sustainable augmentation of its productivity*, mainly on the basis of structural adaptation. This is an aim, for achievement of which is required reorientation of agricultural policy toward the results having durable positive influence on the sector. From this point of view priorities of agricultural policy are:

- Consolidation of the property right as a most important condition for construction of sustainable production units, effective production and for preservation of natural resources. This is because Bulgarian agriculture abounds in derelict properties, at the same time it is clear that the private sector brings economic growth. Legal preconditions are necessary for accelerating the examination of delayed juridical cases for non-restitution of the property and uncompleted voluntary partition, which create insecurity in the land-use and blockade of investments. The next step has to be the creation of cadastre and property register of agricultural lands, which will improve opportunities for property direction, stimulating the market development and the land-use;
- Rational land exploitation as a production factor requires consolidation of the property and its use. The experience of many countries indicates that centralized, predominantly administrative instruments for the resolution of this problem, as a re-allocation, state societies for land trade, etc. are slow, expensive and have doubtful results. The natural solution is the introduction of a land tax. It is necessary to underline that this is a resource tax having non-fiscal aim and creating conditions for rational use of this most important production factor in agriculture. From political point of view this is a hard decision to make, but it responds to the social interest;
 - Securing of the necessary budget funds for co-financing of measures concerning the CAP of the EU, firstly these for the sector restructuring;
 - Budget support for investments in the so-called land improvements (irrigation, tackling erosion etc.), leading to a durable fertility increase;
 - Reorientation of the agricultural aids toward investment support in sectors having relative advantages (fresh and processed fruits and vegetables, ethereal-oil crops, ship-breeding' products);
 - High-quality production, including protected trade-mark and geographic origin;
 - Consolidation of agricultural science and spreading of the knowledge.

The further membership of Bulgaria in the EU means that we cannot build a competitive agriculture without complete CAP application. From this point of view the efforts have to be concentrated in three main spheres – construction of the necessary institutional and administrative capacity, absorption of funds for support of incomes and for market regulations and optimization of the effect of financial resources utilization for the rural regions development.

Considerable part of the agricultural support instruments through the CAP of the EU is oriented toward the increase in producers' incomes. Payments through the CAP for support of producers' incomes are considerable and will rise over the years to come. The complete absorption of these funds requires construction of the necessary administrative and institutional capacity and the application of transparent procedures through:

- Simplification of the rules for registration of agricultural producers and official preparation of documents for application for subsidies;
- Complete harmonization of veterinary and phyto-sanitary legislation of the country with the EU acts;
- Building of the necessary administrative capacity (payment agency, integrated system for administration and control), including the application of CAP mechanisms and elements of a system for public control of their activities;
- Creation of a milk board and viticulture cadastre;
- Building of a system for registration and certification of agricultural foods;
- Complete registration of agricultural producers and consolidation of agricultural statistics.

Special attention has to be paid to social problems of those occupied in agriculture and of rural regions inhabitants. The development of the last-mentioned lags behind in comparison to urbanized regions and the difference went deeper in last years. Incomes are lower and unemployment – higher. The possibilities for young people` realization are restricted. A big part of the population is isolated from the national public process. The life quality as a whole gives way to this in the towns. We have to add that the predominating part of self-hired in agriculture do not pay insurance premiums. All this requires special measures oriented toward:

- Increase in incomes from agricultural activities by complete utilization of agricultural aids through the CAP of EU (120, 144 and 168 million euros for 2007, 2008 and 2009, paid per hectare of cultivated land);
- Improving of economic conditions in agriculture and support for producers' incomes through market interventions and exportation subsidies amounting to 388 million euros for the period 2007-09;
- Support for the local entrepreneurship, predominantly through improving the information access, sources of financing and business-contacts;
- Changes in the normative order, creating preconditions for pension and health insurance of those occupied in agriculture, including application of a program for early retirement of agricultural producers;

- Support for the co-operation of the small producers of agriculture to facilitate the absorption of funds allotted by European funds for creation of producers' groups.

Agriculture is the base of economic life in the rural regions of Bulgaria. But its development and the increase in the living standards of the agricultural population require diversity of economic activities and the participation of local communities in management processes. From this point of view it is pivotal to complete absorption of the contracted 733 million euros for the period 2007–09 allotted by the European Fund for rural regions development, including through securing budget means for co-financing. The main aims in this sphere are:

- Creation of new spheres of occupation and sources of incomes by diversification of economic activities (micro- and small enterprises in the processing industry and services, development of tourism, traditional crafts, etc.), firstly through improving of conditions for development of the local entrepreneurship;
- Development of engineer and social infrastructure (water-supply and sewerage, routes, wastes, education, health protection, etc.) as conditions for improvement of the life quality;
- Finance support for agriculture in mountain regions on the basis of exploited surface (up to 15 leva per decare)
- Aids to the small farms having market potentials for their adaptation to the conditions of the common domestic EU market through payment of purposeful aids for realization of business-plans for a 5-years period (1,200 euros per year);
- Decentralization of management functions and measures for improvement of the administrative capacity of local farms and firms for transformation;
- Support for local initiatives for development, based on the use of unique conditions for economic activity (17 million euros per year for the country).

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The main conclusion of the research is that the attainment of the long-term aim of Bulgarian agricultural policy – construction of a productive, sustainable and vital agriculture is completely conforming to the country's membership in the EU. In a mid-term aspect, this is a realistic aim under the following conditions:

- Structural reform in agriculture has to continue in direction of confirmation of the property right on the agricultural lands and construction of sustainable units, on this base;
- Budget support for investments to concentrate on the so-called land improvements (irrigation, tackling erosion, etc.), leading to a durable augmentation of the fertility, science development and knowledge' spreading;
- CAP of the EU is reforming in rational terms in direction to equalization of conditions for economic activities for all member states;
- The contracted funds for sector support are used predominantly for the continuation of structural changes in Bulgarian agriculture.

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