



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

CHALLENGES FACING THE AGRICULTURE IN THE EU JOINING OF BULGARIA

(on its own initiative)

Sofia, 23 October 2006

The development on its own initiative of an opinion on “Challenges facing the agriculture in the EU joining of Bulgaria” has been stipulated in the Action Plan 2006 of the Economic and Social Council.

The president of the ESC assigned the development of the opinion to the Standing Commission on Economic Policy.

Mr. Petko Krastev was appointed Rapporteur.

The drafted opinion has been submitted by the Commission concerned for approval by the Plenary Session.

At its Plenary Session, held on 23 October 2006, the Economic and Social Council approved this Opinion.

I. INTRODUCTION

The EU joining of Bulgaria influences and shall strongly influence all economic areas and social life in the country. This includes significantly also the agrarian sector.

Agriculture is traditionally one of the most important sectors of Bulgarian economy. Despite all the challenges and contradictions of its development after 1990 this sector remained one of the pillars of Bulgarian economic life. The stable positive development of economy in the last years reduced the relative impact of agriculture with regard to the generated GDP by the sector and the employment rate. Nevertheless, the development of the agrarian sector will play in future an important role for Bulgarian economy and will define to a great extent the general condition of the country.

Therefore, the Economic and Social Council considers that the challenges faced by agriculture and related to the EU joining of Bulgaria require a special attention and concern.

This concern largely is imposed by the fact that the agriculture is one of the most regulated sectors on the European level. The foundations of the EU Common Agricultural Policy (CAP) were laid down as early as the Roman Treaty for establishing the Community. Each of the newly-accessed EU member states should mandatory introduce and apply the Community legislation within this area and keep common decision concerning the development and regulation of the sector.

II. CHANGES IN THE EU COMMON AGRICULTURAL POLICY (CAP)

The development of CAP passes through different periods that meet the definite needs of agricultural producers and consumers in the EU member states. CAP was created in the 1950s when societies in Western Europe were affected by the war and agriculture could not guarantee enough production and food supply needed by people; during that period CAP was concentrated on the development of an effective agricultural sector. Therefore, during that period CAP offered subsidies and guaranteed the farmers some prices motivating them to produce. A financial support was provided for restructuring agriculture when supporting the investments in farms so as to support their consolidation and also to improve the level of management and their technical skills. The result of the implementation of this policy during the decades is well-known. The EU disposes of a modern and compatible agrarian sector taking a leading position in the world markets as an exporter and importer of agrarian and food merchandises.

In 1990s the CAP was significantly changed. The agriculture is not so strongly supported yet and is mainly directed not to increasing the production and effectiveness of farming in the EU but to solving the issues facing consumers and achieving the society priorities in Community. This situation shifted the focus of the policy and now it will be more directed to developing the rural regions, to protecting the environment and biodiversity, to producing a safety and healthy food. The agrarian producers receive financial resources not for increasing their production but for keeping the incomes when they ought to observe strictly the standards for protecting the environment, foods safety, health and wellbeing of animals.

The EU accession of Bulgaria requires the implementation of measures of the CAP oriented to the objectives mentioned above.

The Economic and Social Council considers that implementing such a complex system as the EU CAP requires significant efforts both of the executive and legislative authority and the agrarian producers directly interested in the implementation of the CAP measures. According to the Economic and Social Council, one of the indications for this is the relatively small number registered agrarian producers when in the last year the number diminishes up to 64 127 for 2005 compared to 66 772 for 2004; namely, the registration is a reason that the agrarian producers receive subsidies from the EU.

III. THE STATE OF THE AGRICULTURAL SECTOR IN BULGARIA

Bulgarian agriculture went through serious changes after 1990, i.e. implementation of a fundamental agrarian reform, total privatization and demolition of old productive structures, a complete withdrawal of State from the sector and almost no support of the agrarian producers. The measures undertaken for supporting producers are modest, contradictive and inconstant. Therefore, the agrarian production in the country is one of the less supported agrarian sectors in the world. **The organization for economic cooperation and development defines the level of the support for the agriculture in each country under a special methodology when removes all the differences between various countries. According to this methodology, the common assessment of the level of support for the agriculture in Bulgaria until 2002 is either negative or close to zero and after 2002 was observed a relative increase of the support (from 1% to 2%).** Despite this fact, however, Bulgarian agriculture continues to be less supported compared to the countries of Central and East Europe. In countries like Poland, Hungary and Check Republic, the support lent to the agrarian sector is significantly higher and in the last years vary from 2% up to 6%.

The Economic and Social Council expresses its opinion that even under the EU membership of Bulgaria, the State funding for the agriculture shall be a mandatory provision for the sector prosperity. Bulgaria should provide the necessary funding for supplement the expected subsidies for the unit of area. The result of the limited support for the sector and the contradictive policy are more than negative. This can be seen from:

First, the significance of the agriculture has seriously decreased for the national economy. The stabilization and development of the Bulgarian economy predetermined, as a whole, a significant increase of the produced gross added value in Bulgaria when the produced gross added value in the agriculture area was retained on the same level /Table 1/. This fact defines the relative decrease of the contribution by the agrarian sector for the development of the economy. That trend shows indisputably that the sector is not only a motor for the economic development yet but also hampers the growth of the national economy.

Table 1**Dynamics of the Gross Added Value (GAV) in the country and the sector of the agriculture for the period 2001-2004**

Indexes	2001	2002	2003	2004
GAV in the economy mln. BGN	26 356	28 526	30 227	32 942
GAV in the agriculture mln.BGN	3 520	3 446	3 484	3 567
GAV in the agriculture of the national Bulgarian State Standard	13,4	12,1	11,6	10,9
Labour force in the agriculture sector in % taken from the labour force in the country	25,8	25,8	25,5	25,0

Info source of the NSI from 2005

Second, the produced volume of production within the sector is not only stagnant but is also quite variable in the last years. Tracing of dynamics of the physical volume of the Bulgarian State Standard, generated by Bulgarian agriculture /Table 1/ shows a strong extensive production that depends to a great extent on the environment and climate conditions. Therefore, the lack of a serious progress in the agricultural sector could be a result from the existing serious structural problems as well as from the fact that in the last years the attention was focused on the sector preparation for the EU accession of Bulgaria. Significant efforts were directed to formal criteria as unification of the legislation, establishment of institutions for implementation of the CAP, etc. but not to creating measures for increasing the production effectiveness.

According to the Economic and Social council, the low percentage of the agrarian sector in the economy, typical of developed countries, is a positive phenomenon only when there is an increase of the volume and quality of the produced agrarian production. In Bulgaria this fact does not exist and lessening in the importance of the sector has been observed as a result of the negative trends in its development.

Third, the process of creating one-sided productive structure of Bulgarian agriculture is reinforced. Cereals take a main share of 57.5% with regard to the agricultural land in the country when altogether with oil-bearing cultivations take 81.1% of the cropland. Cereals and oil-bearing cultivations take also over 45% of the gross production of the plant-growing. The characteristic of these cultivations is the relatively poor production of a unit of area, slight employment and extensive production. It is obvious that conditions in the country are appropriate for these groups of cultivations but an excessive specialization of the country in the considered productions is also evident.

The state of the production of other cultivations is very different. The production of industrial crops in the country is at the minimum for the national traditions and conditions amounted to 20-30 00 hectares when it is known that on a global scale an increase consumption and demand of natural fibres is expected.

The production of sugar beet is symbolic and amounts to 5-12 00 hectares. This fact turns the country into a great importer of white sugar and sugar-cane and worsens the trade balance of the country by a production that could be produced in our favourable conditions.

It is paradoxical that in a country like Bulgaria with very favourable climate conditions the production of vegetables decreases. For instance, for 2004 in comparison to 2003 the areas where vegetables are growing have decreased by over 14%. Besides the gradual decrease of areas, for this production is typical also a great variability of productions that shows the implementation of extensive and primitive production. As a consequence, the country can not satisfy its needs of products like tomatoes, watermelons, melons, etc. which were traditionally produced and exported in large quantities.

The production of fruits is not in a better state. Green plantations /0-5 years/ take 3-4% of areas with fruit plants and waste plants are over 20% from the yield fruit gardens. Bulgaria cannot satisfy its internal market with apples, peaches, etc. which recently exported.

Not particularly favourable trends have also been observed in a sector of the Bulgarian agriculture where the country has traditions and positions gained. The process of reducing the vineyard areas and grape production is continuing. During the period from 2001 to 2004, the vineyard areas in the farms were reduced from 15 million hectares to 9,5 million hectares. Bad maintained vineyard massifs have increased from 0,7 to 3,4 million hectares. More than 65% of vineyards have got old and are over 20 years old. The future of this sector is strongly endangered, when taking into consideration the slow increase of vineyards due to some technological specifics of production, as well as the land fragmentation preventing creation of larger vineyard massifs.

According to the Economic and Social Council, the one-sided development characteristic for the Bulgarian agriculture, is typical for countries in transition and not for developed countries which we try to join. In our opinion, this model of development is not only preventing proper use of country's natural resources, even more, it is not providing sustainable means of living to the population in agricultural regions and it will prevent their further development, despite of the plans and programs made to this purpose.

Fourth, unfavourable trends have been also observed in cattle-breeding. Animal number and productivity is stable but on a very low level at the same time. The number of cattle and sheep is amounting respectively to 700 000 and 2 million, and of pigs is less than 1 million. As a consequence, Bulgaria is not able to satisfy the needs of meat processing industry and the prices of some products like pork meat are exceeding the average European level. Concentration of production in cattle and sheep-breeding is gradually being achieved, but it is not accompanied by increase in the number of animals and their productivity. In poultry-raising and pig-breeding big producers are prevailing and some kind of monopolistic trends tend to appear.

The Economic and Social Council believes that the state of Bulgarian cattle-breeding raises serious concern. The country does not provide the necessary raw material for meat and dairy processing industries and processors rely on the import of cheap, low-quality raw material. This at some point could endanger the possibility for export of meat and dairy products, as well as the health of the Bulgarian nation.

Fifth, a concentrated expression of the state of agriculture is the state of foreign-trade flow. From a country with favourable natural and climatic conditions for basic agricultural

productions and existing traditions in agrarian sphere as Bulgaria, there may and should be expected active export of agricultural and alimentary products, which should compensate the country's needs for import of new technologies and investment funds for the needs of rural economy. Regardless of the fact the Bulgaria keeps its position as a net exporter, the unfavourable trends in the development of the sector appear in the trade turnover, as well. Bulgaria develops as a narrowly specialised exporter of agricultural products. The net export is mainly of wheat, fodder barley, sunflower seed, tobacco, wine and in some years of maize, as well.

Bulgaria is a net importer of rice, fruits, sugar, vegetables, meat, milk and dairy products. This shows that Bulgarian agriculture develops as monocultural and specialised in the export of some products. For a number of basic products, however, the country is more and more becoming an importer. Especially peculiar is the situation with fruits and vegetables, where despite the good conditions and traditions in their growing, the country is increasingly turning into a net importer. In this case we are not seeking to breathe new life into the old idea and the desire for self-sufficiency in all agricultural products. In market economy an active internal sector trade is an indicator for a high level of development. However, the success can undoubtedly come only if the relative advantages of the country are used, and these also lie in productions for which we are currently net importers.

To sum up, this state of the agricultural sector is the reason why the Economic and Social Council believes that the sector needs the special attention of the state government. It is not acceptable for a country with traditions in the agricultural production like Bulgaria to import products with which it was famous around the world and were its "trade mark". We should not forget that developed countries have developed agriculture as well and are one of the great exporters of agricultural and alimentary products.

IV. BASIC ISSUES

The unfavourable state of agricultural sector allows also for bringing out some of the main issues manifesting themselves basically in the following:

1. Great fragmentariness of cultivable land /number of properties/ and this trend in the last years is growing stronger owing to the process of dividing heirs' land properties. The area of agricultural properties in Bulgaria continues to decrease in the last years. Even in Dobrudzha, a region with the most developed agriculture and consolidated land, the average size of a property has reduced nearly twice in the recent years. On the eve of Bulgarian European Union accession, small producers predominate in its agriculture. 25% of the agricultural producers cultivate up to 1 hectares of land, 19% - between 1 and 2,5 hectares, and 11% - between 2,5 and 5 hectares. 23% look after an area of over 5 hectares and 22% do not cultivate land and are engaged only in cattle-breeding. The cultivable land is strongly fragmented. Only 16% of agricultural producers have their land in one piece. The rest cultivate two or more pieces of land.

The Economic and Social Council believes that the state of Bulgarian land and the trend of using and looking after it raises great concern. In the last years the tendency to decrease the average area of one property is getting stronger. The opinion of the Economic and Social Council is that if urgent measures are not taken by the state to improve the land relationships, aiming at land consolidation, the fragmentariness of agricultural land in Bulgaria will be increasing and will strongly impede its cultivation. The necessity of full map-making and cadastre are terms categorically laid down also by the EU to the government of the country. And this is the first step towards the land consolidation, as well.

2. Uneven development of the individual subsectors of agriculture. The production of grain and to some extent of oil-bearing crops and tobacco keep their level of development. In some sectors, however, in which the country has always had relative advantages – viticulture, production of fruits and vegetables, sheep-breeding, etc. there is deterioration of production results. The uneven development of the individual subsectors hampers the right crop-rotation, exhausts the soil, makes the agricultural producers very sensitive to adverse natural or phytosanitary conditions for these crops.

3. Worsening situation regarding age structure and professional qualification of the workers in agriculture. Only 5% of the employed in the sector are under 35 years of age, a 66% are over 55. The education and qualification level is low, too. Scarcely 2% of the employed in the sector are with secondary agricultural education, and only 1-1.5% are with higher than secondary education. This qualitative characteristic of the labour force in the sector will hinder to a significant extent the introduction of new technologies and the enhancement of competitiveness of Bulgarian agricultural production.

4. Extremely low investments in the agricultural sector, both in absolute and relative terms. In the last 4-5 years the relative share of credits granted to the agricultural sectors has been ranging from 1,5 to 2% of the size of total credits for the country's economy. This is wholly insufficient and continues to threaten the future of the sector.

5. Malfunctioning and undeveloped market structures and mechanisms. The development of many subsectors as vegetable-growing, fruit-growing, viniculture and some sectors of cattle-breeding is prevented by the lack of market centres where the producers could offer their production. The existing market institutions and producer markets are strongly dominated by traders and dealers, which hinders the establishment of normal market relationships in the agricultural production.

6. Bulgaria's agricultural policy during the last decade has always been directed towards solving problems of production itself, implementing land and structural reform, undertaking encouraging measures, even though limited according to the capacities of land, to increase production.

Our EU accession means a complete shift of focus of the pursued agricultural policy. What comes to the foreground now are the objectives of safe foods, applying technologies that spare natural resources. This means **implementing a new type of agrarian policy for our producers, which can cause certain difficulties**. The measures of the changing CAP are intended for an agriculture at a different organizational, technological and market level. For that reason, they aim mainly at restricting the volume of production whereas Bulgarian agriculture needs measures to increase production. Through the changes in CAP the EU strives to reduce the intensification of production, whereas Bulgarian agriculture needs increase in the intensification of production. The pursued Common Agricultural Policy in the EU stimulates increase in the requirements for observance of good agricultural practices, increase in environmental requirements, requirements for quality and for production environment, which sometimes appear as an end in itself.

Directly implementing all those requirements will ruin the majority of Bulgarian agricultural producers and processors. As a result, the market will become monopolized by larger economic groupings – a process which can be already clearly observed. Therefore a clear state policy towards this sector and its future is even more needed.

V. CONCLUSIONS AND RECOMMENDATIONS

The Economic and Social Council believes that urgent measures should be taken for the development of the agricultural sector, measures that can and should be divided into two main groups:

- 1. Undertaking national measures aimed at implementing structural reform and enhancing the effectiveness and competitiveness of production.**

- 2. Creating an environment for the full application of CAP from the moment of our membership in the European Union.**

The Economic and Social Council believes that directing all the attention of the public and the executive and legislative powers only towards fulfilling the requirements of CAP, would not solve the major problems of agriculture in the country. Implementing CAP from 2007 will cause conflicting trends:

- a. Rise in the price of grain and oil-bearing crops will cause increase in production.
- b. This rise in the price of cereal crops will increase the price of fodder and will put under a lot of pressure pig-breeding and poultry-raising.
- c. A major part of the funds are rather conditional and their receiving is connected to the creation of the right conditions. To absorb these funds, well-prepared projects are needed, and for that it is necessary to create the right capacity.

Therefore, the opinion of the Economic and Social Council is that within the newly adopted rules there should be developed and implemented an active state policy for solving the structural problems of Bulgarian agriculture. The state should undertake

measures to increase production in agriculture, to enhance competitiveness of Bulgarian agriculture and improve the living standards of the population in rural areas.

In this respect, some basic guidelines that the Economic and Social Council recommends are the following:

For the first group of measures – National measures, aimed at implementing structural reforms and enhancing the effectiveness and competitiveness of production:

1. Improving legislation which regulates land relationships, namely improving the principles, the right, conditions and size of inheritance, land settlement, the use, preservation and ownership of farm land, stopping land fragmentation.
2. The state should undertake the obligation to effect national additional payments to direct subsidies, which are provided by the EU.
3. Active social policy for the employed in the agricultural sector should be developed and implemented by the state. There should be created conditions and guarantees for the social security and protection of agricultural producers. It is also necessary to improve the social security regime of seasonal workers.
4. Developing programs to assist the growth of the ‘new’ trends in agricultural production – biological production, production of bio-fuels, etc. Without solving the main problems of agricultural production, these new trends will nevertheless provide better market prospects for individual regions and agricultural producers.
5. Developing target programs and undertaking special measures regarding activities that assist agricultural production – irrigation and land reclamation, plant protection and agrichemistry and veterinarian work. Without securing these activities at a higher level, the development of modern farming is unthinkable. Without undertaking active measures for their development, the level of implementation of these activities will be the main obstacle on the road for an effective agricultural production and full integration of this sector in the EU.
6. Incorporating agricultural science and turning it into a real factor in the whole process of management of the production activities in agriculture and manufacturing industry. State order for the development of scientific projects and programs in accordance with the needs of agriculture and manufacturing industry. Using all the potential of universities, scientific institutes with the National Centre for Agricultural Science and Bulgarian Academy of Sciences, agricultural schools, Agricultural Advisory Service, etc. to assist agricultural producers and especially the semi-market farms with potential for growth.
7. Ensuring target promotion by the State Fund “Agriculture” of young farmers up to 40 years of age to the amount of 15% of their investment projects.
8. Creating a Fund for guaranteeing agricultural production against risks not included in insurance events of insurance companies.

9. Providing professional advice to agricultural producers and building an effective system of market institutions and market information with the help of local authorities. This will make producers less dependent on the dictate of tradesmen, processors and exporters and more equal partners of their European counterparts.

Regarding the second group of measures – Creating conditions for the full implementation of the Common Agricultural Policy from the moment of our membership to the European Union:

In this regard, efforts should be focused on:

1. Finally building a paying agency and integrated system of administration and control.
2. Implementing all the measures regarding the veterinarian and health issues.
3. Implementing CAP requires a higher organization of the agricultural sector, whereby each participant in it – state bodies and agricultural producers – shall assume their part of duties and responsibilities. The state should undertake active policy to present Bulgarian agricultural production in an attractive way to EU countries and other perspective trade partners through active participation in specialized exhibitions for agriculture and food processing industry.
4. Implementing all the initiatives connected to ensuring the building of dairy market – building independent laboratories to establish the fat content, effective functioning of the national and regional dairy boards.

The Economic and Social Council believes that the main goal of Bulgarian agriculture after the country's accession to the EU, as well, should be increasing its effectiveness and restoring production in its traditional sectors. Hence, the solving of the problems of Bulgarian agriculture could hardly be expected to happen only by applying the measures of the Common Agricultural Policy. This policy, when implemented in our situation and with existing production structures, means retaining the level of production in the country at the very low level achieved so far. Therefore, the implementation only of CAP cannot solve the specific problems of Bulgarian agriculture. Clear state policy is necessary, ensuring strong and timely support of the sector. Such policy will not only not contradict the general European policy but will complement and adapt it to Bulgarian circumstances and will develop Bulgarian agriculture. Sensible and skilful combination and not opposition will provide an opportunity to the agricultural sector in Bulgaria to be the driving force for Bulgarian economy.