



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

PROBLEMS OF INDUSTRY DURING THE EU ACCESSION PROCESS OF BULGARIA

(on its own initiative)

Sofia, 27 June 2006

In the Action Plan of the Economic and Social Council for 2006 was stated that an opinion should be drawn up on “Problems of Industry in Bulgaria’s European Union Accession Process”.

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

Mr. Vasil Velev was appointed Rapporteur.

At its session on 7 June 2006, the Commission on Economic Policy adopted the draft of the Opinion.

At its Plenary Session, held on 28 June 2006, the Economic and Social Council approved this Opinion.

I. INTRODUCTION

There is no doubt that the full membership of the Republic of Bulgaria to the EU from 1 January 2007 will have a positive impact on the development of Bulgarian industry in long-term perspective. With its unified market and population of 457 million, the EU offers great opportunities for Bulgarian companies. At the same time, the country will receive substantial funding from the EU Structural and Cohesion funds, and Bulgarian business will have access to pan-European systems and mechanisms for financing, export insurance, venture capital, etc., which will additionally contribute to the enhancement of its competitiveness.

For the problem-free entering of Bulgarian industry in the united European space, however, it was as early as the negotiation process that a system of high expectations was set up and manifested itself in relation to: institutional organization and mechanisms; quality and safety of goods; productivity and efficiency; ecology; labour conditions, etc. All these, according to the **Economic and Social Council**, are focused in the competitiveness of Bulgarian economy, and meeting some of them will have a negative impact in long-term and middle-term perspective, if necessary measures are not taken in due time. It is on them that the **Economic and Social Council** is focusing attention.

This **Opinion** is formed on the basis of objective analysis of the commitments undertaken by Bulgaria in the negotiation process on different negotiation chapters and their annexes, as well as the actual condition of Bulgarian industry as of now. The latter is established on the basis of official information from the National Statistical Institute, Eurostat, the ministries of the Republic of Bulgaria and other state institutions. In this sense, it seems highly probable that some of the issues would find their timely solution, which could be considered the chief aim of the Opinion, while others could turn out to be not as severe and significant as they look now, and yet others might not manifest themselves at all, but new problems with no current indications might come to existence.

II. FOR NEW INDUSTRIAL POLICY

With its 2005 monitoring report, the European Commission acknowledged the economic progress made by the Republic of Bulgaria and confirmed the development of a functioning market economy in the country. In this respect, the industrial policy conducted in the recent years has made a significant contribution. As of 31 December 2005, over 89% of the state-owned assets have been privatized, economic stability and predictability are established in Bulgaria, the legislative basis for economic development is constantly developing and improving, there is a better business environment, a number of national and sectorial strategies and programs are being developed and generally implemented.

Regardless of this, the economic and industrial development of Bulgaria is still facing a great number of severe problems and regional, sector and product discrepancies which cannot be solved fast and efficiently without a fundamentally new active industrial policy. The

forthcoming full membership of the Republic of Bulgaria from 1 January 2007 and the 'New beginning for the Lisbon strategy' announced in March 2005 are altering substantially the environment and the requirements for social and economic development of the country. It is necessary to improve the coordination in the legislation and among institutions, simplifying and reducing administrative barriers to business, accomplishing practical results through focusing on national priorities, substantially new national action programs and better management for the implementation of the main objectives of the Lisbon strategy.

The Republic of Bulgaria should implement the Lisbon strategy criteria for competitiveness, since the basic reforms set out in the paper are being implemented at a national level. The new industrial policy should ensure significant reduction and elimination of the lagging behind the EU countries in productivity, competitiveness, income, consumption, technology update, infrastructure, education, science, regional development. These are difficult problems, which should be solved by the nation in the shortest possible time, since:

1. Regardless of the stable economic growth in the last years, GDP per capita in purchasing power parity is hardly 32.1% in comparison with the EU 25 (based on data from Eurostat 2005). At the same time, however, the relatively high rate of economic growth is being accompanied by advanced import growth – and in the first quarter of 2006, import growth (132,8 %) in comparison with the same period of 2005 is ahead of export growth (128,2 %) by 4,6 percentage points. The result is a permanently established negative external trade balance and deficit in the current account. Moreover, foreign trade is not a bearer of technical progress since raw materials are predominately imported, whereas exported are high capital-consuming, energy-consuming and input-consuming lightly-processed and low value added commodities. The export of high technology products has not exceeded 3% for the whole period following 1999; the share of imported machines, equipment and transport vehicles has been too low – under 1/3 of the total import volume for the above period, and the export share is even lower – approximately 15% of the total export volume.

2. The Republic of Bulgaria has an Innovation Strategy, which was adopted in 2004, but the amount of expenditure for research and development as a GDP share (0,5 % for 2004) is four times less than the European average and 6 times less than the level set in the Lisbon Strategy. Investment expenses in industry have increased considerably (up to 10 billion BGN for 2005), but the expenses of private companies for research and experimental development are two times less than the average for the EU-25, and hardly 6,7% of the country's research potential is employed. The share of the innovative enterprises in Bulgaria is around ¼ of their share in the EU. At the same time, according to the UNCTAD index of innovative capacity, the country is in a good position – in the 38th place out of 117 countries. According to its competitive growth, Bulgaria occupies a stable median position among the countries studied (59th place for 2004), and at the same time the index of the main trade partners and investors in Bulgaria in this ranking is close to that of the country. Also of concern are the indicators of delayed entering of information and communication

technologies in industry, the lack of a wide-spread broadband access to Internet, low level of computerization of secondary and higher education.

3. Despite the progress during the last years, the unemployment rate is still high, and the share of long-term unemployed persons is twice as high as the average one for the EU-25. The employment rate in Bulgaria is by 9 points lower than the average one for the EU-25 and far below the goal set in the Lisbon Strategy for raising the employment to 70% by 2010. The income growth rate should be considered insufficient and it corresponds basically to the alteration of consumer prices index. As of now, the gross income of the population of Bulgaria is hardly 28 – 30% of the average income in the EU countries, being accompanied by the lowest labour productivity in comparison to the EU-25 – scarcely 31% of the average productivity measured as GDP of an employed person by their purchasing power parity. And with the accession of the Republic of Bulgaria to the EU in 2007, the consumer prices will increase in their attempt to reach the price levels in the Community, regardless of the fact that according to the index of the comparative level of end consumption prices, the country is close to the newly accessed countries. The demographic situation in the country and the quality of labour power is worsening – strong aging of the population, late entering in the labour market, strong discrepancy between the supply and demand of workforce, low mobility of highly qualified labour resources. The lack of positive changes in the educational system contributes considerably to this.

All these unresolved and deepening problems are interdependent. It is necessary that the main recommendation in Mr. Wim Kok's group report be adopted immediately – to plan, organize and gradually implement interrelated initiatives and measures. In relation to this, the Economic and Social Council jointly with the social partners and the representatives of civil society recommends once again to the Council of Ministers of the Republic of Bulgaria to develop and adopt a National Program to accomplish the goals of the Lisbon Strategy. This is because we believe that the comprehensive task is to unite and directly bind economic, social and political objectives for fast and efficient implementation of the main mid-term priorities:

Developing dynamic knowledge-based economy, which gives everybody opportunities for self-realization and decent life;

Providing accelerated and sustainable economic growth, higher than the average for the united Europe;

Reaching the criteria for fuller employment, which gradually should be defined as a key goal for economic and social policy;

Adopting the European Social Model and building a modern effective system of social protection.

Their implementation should be in a **business environment better than that of the European countries with the aim of creating conditions for accelerated economic**

growth and attracting investments. This defines the due place of the following immediate measures which should lay the foundations of a new industrial policy:

1. Activating the dialogue among institutions, as well as between them and the social partners in developing positions for strategic priorities in the development of Bulgarian industry;
2. Improving competitive environment, enhancing competitiveness of Bulgarian industry and promoting export;
3. Coordination between the state and industry representatives of the actions for promoting and assisting investments, research and development;
4. Improving and simplifying the normative frame for free development of business and promoting the start of production activities;
5. Developing and applying competitive tax and social security regime through reducing the fiscal pressure on industry and labour.

III. MAIN CHALLENGES FACING INDUSTRY AND REACTIONS PREDETERMINED BY THEM

We emphasize that macroeconomic stability, effective institutional reform and liberalization are only a condition to accomplish sustainable economic growth. The positive development of Bulgarian industry in practical terms calls for appropriate microeconomic reforms to ensure better productivity and competitiveness of companies.

The general problem is the enhancing of competitiveness of Bulgarian industry in the process before and after the accession of the Republic of Bulgaria to the EU as it defines the capacity of Bulgarian companies to resist the sharply grown competitive pressure of European business. By this indicator the country occupies the last place in regards to the newly accessed EU countries. This is why the **Economic and Social Council** considers the operative program “Developing competitiveness of Bulgarian economy 2007-2013” fundamental and central to the efforts of authorities and society to turn the economy of the Republic of Bulgaria into an equipollent element of EU economy. Accomplishing its goals should turn into a generator and criterion for implementing the rest of the operative programs and therefore it is expedient that the program should be subject to public monitoring and regular evaluation with the active participation of the social partners. Its aims and implementation should also be supported, as recommended by the Economic and Social Council, by the National Program for Implementation of the Objectives of the Lisbon Strategy.

1. Bulgarian industrial enterprises are not aware, or not sufficiently aware, of the important specific commitments undertaken by the Republic of Bulgaria in the

negotiation process, which are systematized in the individual negotiation chapters and their annexes. A matter of concern is the fact that a significant part of them have no idea of the changes that are underway and those that are forthcoming¹, of the mechanisms of action of the EU Regulation and the way of transposing them to the national legislation, despite the fact that the majority of Bulgarian enterprises already have trade partners in the EU (59,8% of the companies enquired) or are in the middle of negotiations with potential partners (10,7% of those enquired).

Industrial enterprises are relatively well acquainted with Bulgarian legislation in the field of free movement of goods and of environment (13,7% do not know it), as well as with Bulgarian standards (9,9% are not acquainted with them), but they barely know EU trade policy (21,2% are completely unacquainted with it whereas 45,8% are only partially acquainted). The main reason for this is the scarcity of information (for 16,4% of the companies enquired) and its insufficiency and incomprehensiveness (for 59,2% of those enquired). At the same time, the companies are in pressing need for information on technical requirements and standards (67,6 % of the enquired), for the commercial aspects of the accession (61,7 %), for potential business partners from the EU (68,4 %), for action mechanisms of the EU Regulation and the ways of its transposition into Bulgarian legislation. They seek to find the necessary information from various sources, among which predominating are those from the Internet (for 61,1 % of the companies enquired), business and branch organizations, (for 49,6 % of those enquired), the State Gazette (45,6 %), the media (37,3 %). At the same time, probably due to lack of time and opportunities, the majority of companies do not participate in information fora on the problems (57,9 % of the companies enquired). Also significant is the fact that the information packages of the Ministry of Economy in which the main commitments, requirements, measures and enactments are described are not indicated as a source of information on these problems by the enquired companies.

Regardless of the reasons, **the Economic and Social Council considers** it expedient that the state administration should work out, in cooperation with the social partners and branch organizations, specialized and practically oriented collections of specific requirements, texts of regulatory documents, instructions, specific advice, etc. by sectors, branches and products, which can be provided for a small sum to all industrial enterprises. These collections should be mostly simplified, should recommend specific solutions, measures and actions to ensure the fulfilment of commitments and new requirements, as well as to prepare companies on time for the new business environment after 1.01.2007.

2. The constant improving of business environment is at the root of the development of competitiveness. Regardless of positive tendencies in its development, Bulgaria occupies the last position among the EU-25 countries by this indicator, as well. In this respect, decisive measures should be undertaken, since in the World Economic Forum's ranking for 2004, in which 102 countries participate, Bulgaria firmly occupies the last 20% of

¹ Survey of the Ministry of Economy "Are we getting ready for the European Union accession?", conducted among 373 operating SMEs in the 28 districts of the Republic of Bulgaria.

the places by a number of basic indicators for the regulatory burden. In 2004, regardless of the Act on Restricting Administrative Regulation and Administrative Control on Agricultural Activities, which had been operating since 18.12.2003, over 80% of the Bulgarian companies depended on some permits and more than half of them depended on licensing regimes. What's more, the numerous requirements and documents are not always clear enough, and an essential part of the information required is in the public registers. Substantially contributing to this are the numerous inspections, examinations, obligatory filling out of forms, etc. after obtaining the respective permit and/or licence. Undoubtedly, in the recent years efforts have been made (by the Council of the Ministers, the Ministry of State Administration and Administrative Reform and Field Ministries) to reduce the regulatory burden (since 1999 up to now there have been revised, relieved or cancelled over 800 regulatory, licensing or permit regimes), but the result sought has not been achieved yet. Thus, for instance, as of 30.03.2006, over 900 regulatory, licensing and permit regimes of the central municipal administrations have been entered in the Register of Administrative Structures and Acts of Executive Bodies (www.government.bg/ras); as of 30.03.2004, 127 980 individual acts by regulatory regimes have been entered.

The Economic and Social Council believes that the improvement of business environment is one of the key instruments which the government can use without restriction in order to ensure the enhancement of competitiveness of Bulgarian industry. In this regard, the ESC expresses concern that the rate of reducing administrative barriers facing companies is not fast enough, and the Council believes that the main reasons for that are:

Firstly, lack of long-term systematic efforts in this respect;

Secondly, uncontrolled adoption of new regulatory requirements without evaluating the effect of their introduction, which is performed faster than easing and/or cancelling the older ones;

Thirdly, lack of serious efforts to reduce considerably the number of examinations performed and to increase their efficiency;

Fourthly, poor organization and poor conditions of the administrative services provided.

In this regard, the **Economic and Social Council urges** for effective and accelerated reduction of administrative barriers, and believes that the decision of the Council for Economic Growth with the Council of Ministers of April 2006 to develop a unified approach to finding a complete solution to the problem, including at municipal level, should be supported. At the same time, we consider it impossible to optimize the regulatory regimes in the country without the effective involvement of the social partners and the branch organizations. In the process of reviewing and optimizing the regulatory and licensing regimes, it should be borne in mind that the fulfilment of EU requirements will in practice increase the administrative difficulties facing many of Bulgarian industrial companies. To solve this dilemma, besides

the effective use of the negotiated transitional periods, **we recommend the approach of maximum liberalization of business environment and application of minimum regulations, obligatory for the EU.**

3. Particularly disturbing is the environmental situation. With the conclusion of the negotiations and the signing of the treaty for the EU membership of the Republic of Bulgaria, industry is presented with a fait accompli in a number of fields. Such an important field is ecology, where the negotiated transitional periods, for instance under Directives 1999/32/EU, 94/62/EU, 1999/31/EU, 91/271/EU, 1996/61/EU, 1999/13/EU, 2000/53/EU, etc., turn out to be too short and keeping the deadlines for the implementation of the commitments undertaken, gives rise to additional, not only financial and organizational, but also institutional difficulties for the industrial enterprises. Meeting the increased requirements, lacking at the same time adequate transitional periods, will lead to extremely high expenses in a short period of time and to loss of productivity and competitiveness.

Additional difficulties for industry are caused also by some ungrounded and precipitate actions of the state administration, which in its desire to establish the necessary correspondence as soon as possible, imposes additional shortening of deadlines and higher demands. An indication in this respect is the desire of the Ministry of Environment and Water to raise 150 million BGN by the companies for the implementation of Directive 94/62/EU on "Package and Packaging Waste", setting the goal of accomplishing criteria twice as high as those negotiated with the EU. A similar problem emerges also with the decommissioning of electrical and electronic equipment, for which we have undertaken commitments towards the EU, but Bulgarian legislation transposes them in shorter than necessary terms, whereby the state illegally collects funds to implement these commitments, while at the same time there is no adequate infrastructure for their implementation.

Therefore, the **Economic and Social Council considers** it expedient that the specialized units of the Ministry of Environment and Water in cooperation with the social partners and branch organizations should develop plans, programs and schedules for a stage-by-stage implementation of the commitments undertaken in the negotiations. A similar approach is called for by the fact that at a rough estimate the total investment expenses for industry to achieve correspondence by 2014 amount to about 9 billion Euros, whose provision will constantly bump into unavoidable financial restrictions. Consequently, this problem will manifest itself as particularly significant when ensuring investments for implementing the environmental requirements of the private sector, since rough estimates show that to achieve correspondence only according to the Directives with a stated transitional period, over 5 billion Euros of private investments will be needed. A considerable part of them is to be ensured already in the period 2007-2008.

Apparently, in addition to institutional and organizational measures (for instance, inventory of pollutants, of technologies and purifying equipment and their efficiency; survey and selection of new technical and technological solutions; cooperation in building and introducing

systems for environmental management, etc), there is also the need for measures of active support of industry in the implementation of the commitments undertaken. In this respect, the **Economic and Social Council considers** it indispensable that the operative program 'Environment' should make provisions for funds for environmental grants for SMEs, whereby the criteria for eligibility should definitely include urgency of the specific problem in terms of establishing correspondence. Another relevant measure could be developing and introducing a national system for trading emissions.

4. A new beginning for the innovative strategy of the Republic of Bulgaria. In all cases, the realization of such a volume of environmental investments in short time will have a negative impact on the competitiveness of Bulgarian industry. A possible solution of the situation is their definite combining with modern innovations. Moreover, regardless of the upsurge in the investment and innovative activities of Bulgarian companies, outdated technologies and capacities, not adequately used, still prevail in the industry.

The **Economic and Social Council insists** if not on a new innovative policy and strategy of the country, at least on a 'New beginning for the innovative strategy of the Republic of Bulgaria'. The measures underlying this new beginning should be such as:

Implementing transfer and mediatory services for industrial enterprises;

Making innovation profiles of enterprises, in accordance with which they should form and conduct their own innovation policy;

Implementing specific measures to stimulate 'hunger' for high-technology innovations in industrial companies;

Re-establishing the relationship between business and university education and science;

Pursuing state policy oriented to the 'generators' of innovative decisions;

Developing mechanisms for financial promotion of university potential;

Additionally activating the work of the National Council for Innovations to coordinate the activities of all parties interested in the transfer of technologies.

5. Innovations for energy efficiency. The Economic and Social Council believes that the problem of high energy consumption and low energy efficiency of Bulgarian economy should also be solved through modern innovations. In this sense, the Energy Strategy of the Republic of Bulgaria adopted by the National Assembly on 17 July 2002, which practically lacks realistic viewpoints and measures in this respect, should be updated.

The relative energy consumption in Bulgaria (in tons of oil equivalent per 1000 Euro of GDP) is 9 times higher than that of the EU-25, and the industry producing 30% of the GDP is the biggest consumer of primary energy carriers, fuels and energy and consumes 38,2% of the final energy consumption in the country. At the same time, with the Memorandum of Understanding of 1999, Bulgaria undertook the commitment to close and decommission units 3 and 4 of the Kozloduy Nuclear Power Plant in 2006. To eliminate the unfavourable economic, social and environmental consequences of that, the European Commission proposed an additional 140 mln. Euros within the framework of PHARE program. It is obvious that electric power in the country will become more expensive and this fact is no longer under discussion – rather when and by how much is what is being discussed.

Regardless of the outcome of the discussion, an increase in production costs at the expense of energy costs is inevitable, given the current condition of Bulgarian economy. Moreover, the prices of main energy carriers keep rising and according to the commitments made in the negotiation process for the EU accession, the country needs to set up mandatory oil reserves. In regard to this the **Economic and Social Council draws attention** to the fact that the established mechanism for regulation of electric power price by the State Commission for Energy and Water Regulation by expense price-formation is an ineffective method of monopoly regulation, as it does not stimulate reducing production expenses regardless of its combining with centrally established prices. It is recommended accelerating the introduction of market mechanisms and methods of pricing also in power industry.

Based on all this, the **Economic and Social Council recommends** providing funds to stimulate the enhancement of energy efficiency in the enterprises within the operative program 'Boosting Competitiveness of Bulgarian Economy 2007 – 2013". It is recommended that the necessary funds be concentrated in a specialised and efficiently managed fund for energy efficiency. At the same time, it is necessary not only to provide for funds to stimulate the development of renewable energy sources, but also to work out, adopt and start the implementation of a National Plan for the Development of Renewable Energy Sources by 2014. The measures according to this plan should be ensured by the necessary financial instruments, including those within the framework of the operative program "Environment".

We specifically emphasise that so far this area has been underestimated by the governments of the Republic of Bulgaria despite the fact that as early as the Road Map of Bulgaria and the Partnership for Accession explicitly stated that "energy efficiency and the increased use of renewable energy sources continue to cause concern, remaining too low." The fact should also be considered that the measures in this respect are directly connected also to the implementation of the objectives of the European Strategy for the Security of Energy Supply and Climate Protection.

6. The constant rise in the prices of energy carriers, liquid fuels in particular, has a negative impact also upon the transport sector of the Republic of Bulgaria, especially upon automobile transport. At the moment, according to the volume of transported load

(measured in terms of tonkilometres/GDP), Bulgaria occupies the most unfavourable position in comparison to the countries from EU-25. The reasons are numerous and various, but what stands out among them as especially significant is the poor infrastructure. Also the expected positive results from the introduction of the vignette system have not manifested themselves.

The **Economic and Social Council believes** that the negative effects in the development of this sector will grow stronger after 1.01.2007, since regardless of the transitional periods requested in the negotiation process, according to Regulation 3118/93 (amended with Regulation 792/94 and Regulation 3315/94) and Regulation 12/98, the higher requirements for financial stability of companies for international transport have already come into effect and considerable sections of country's international thoroughfares allow transit without any special fees whatsoever.

We are concerned to note that the direct introduction of the requirements for financial stability affects in an extremely negative way around 80% of nearly 6000 Bulgarian automobile carriers licensed for international transport, as of now. To mitigate the negative impacts of the increased requirements for financial stability of Bulgarian international carriers following the full membership of Bulgaria in the EU, the **Economic and Social Council recommends** that the Ministry of Transport jointly with the social partners and the branch organizations develop a National Transport Strategy. It shall be expedient that the operating program "Transport" should provide for measures and resources for painless and efficient consolidation in the field.

7. Regardless of all the measures, however, we do consider it **unavoidable that the massive entering in our country of foreign international automobile carriers will additionally harm the national transport infrastructure.**

Obvious is the need of national strategy for development of the transport infrastructure after the accession of Bulgaria to the EU and the **Economic and Social Council recommends** that this strategy should be developed immediately. At the same time, we find it necessary that the operating program "Regional Development" and the budgets of the Ministry of Transport and the Ministry of Regional Development and Public Works foresee enough resources for maintaining the country's road network. We also state with a great concern the unavoidable necessity of a complex solution of the infrastructure issues of the Republic of Bulgaria.

A main issue of improving the infrastructure is also the inefficient usage of the foreseen pre-accession funds (under the ISPA Program) that supposes also lack of sufficient capacity for the effective usage of EU Structure and Cohesion funds in this respect. It is alarming that a very small number of Bulgarian enterprises succeed in winning public orders in the field of infrastructure (hardly 18% of Bulgarian enterprises have won tenders under the ISPA Program). Instead of this, Bulgarian companies are hired as subcontractors under

more unfavourable conditions by the big foreign enterprises that have won the tenders. The issue is escalating since after the EU accession of Bulgaria, there is expected to be mass entering of highly competitive trans-national companies into the national market, which by their dumping offers will win 80-90% of the announced tenders and public orders.

8. A sharp increase of the incoming flow of consumer goods and alimentary products due to a penetration of big international trade chains. Significant increase of the transport traffic within the country after 1 January 2007 could be expected also as a result of the sharp increase of the incoming flow of consumer goods and alimentary products when big international trade chains enter Bulgarian market. This entering hides other dangers. The experience of many of the new EU member-states shows that eliminating the export-import restrictions provokes an import of great quantities of cheap commodities, which despite being fit for use according to standards and requirements are of lesser quality than local production. The experience acquired shows that their entering into Bulgarian market does not lead to the expected formation of networks of Bulgarian supplying companies around them and does not respectively motivate the development of the national industry. On the other hand,

the Economic and Social Council expresses its apprehension that the aspiration of the international trade chains to increase their sales and market share can have a negative impact on the national dealers and also on Bulgarian food industry. There are still indicators of this fact – the rising price war within the trade industry.

To minimize the negative effects, **we recommend that urgent measures be taken in two directions:**

Firstly, the Commission for Protection of Competition should do the necessary not to admit dumping and further escalating of price wars in the retail and wholesale trade of consumer goods.

Secondly, the Council of Ministers should provide the necessary institutional, organizational and resource preconditions for strict control and observation of European norms and safety requirements for consumer goods and alimentary products as well as their strict implementation.

9. The Economic and Social Council expresses a particular concern in relation to the aggravating situation in Bulgarian food industry. Besides the expected strong outside competitive pressure and mass import of cheap alimentary products, there exist also many unresolved severe issues on hygiene and best production practices, on goods safety, etc. We do not exclude the danger of the appearance of need for raw materials in food industry as a consequence of the negotiated quotas and restrictions, under the chapter "Agriculture", for national production of some of the agricultural products that will lead to a decrease of the production within the sector accompanied by a forced import of raw materials.

The **Economic and Social Council insists** on their urgent solution and expresses its apprehension that the effects of the EU accession of Bulgaria will be most severe within Bulgarian food industry. It can be expected that around 90% of the existing over 5000 enterprises in food industry will not be capable of implementing the high European requirements and standards as well as the commitments undertaken by Bulgaria during the negotiation process.

It should be underlined that due to insufficient institutional capacity, the lack of priorities within the sector, as well as the insufficiently effective allocation and usage of the financial resources under the SAPARD Program, valuable time was lost for the sector preparation for joining the EU. Thus, for instance, regardless of the requirement stipulated by the Food Act for introducing the System for Risk Analysis and Critical Control Points, it has been fulfilled by only 150 companies by now. Over 760 concrete measures, under the chapter on "Agriculture", following the Report of the European Commission in May 2006 will have an additional negative effect.

The **Economic and Social Council draws the attention** of the Ministry of Economy and Energy to the fact that by 2007 all companies in the sector and related to them suppliers, distributors and sellers should apply the principles of the System for Risk Analysis and Critical Control Points. In this regard, despite the measures for strengthening the custom vet control and restricting the import of low-quality food products, we recommend that the Ministry in cooperation with social partners and sector branch organizations should urgently develop and start the implementation of a National Program for Support of companies within the food industry in their efforts to reach the European standards and requirements.

10. The justifiable pressure to increase labour force expenses and wages also exerts influence on the competitiveness of Bulgarian business, in so far as the incomes per capita of Bulgarian population are not more than 30% of the average income in the EU countries.

The Economic and Social Council takes a stand for a sensible income policy and dealing with the challenges in this area in the fastest possible way, since the purchasing power of the population has considerably diminished as a result of the restrictive policy of 1990s, high inflation, recapitalization and reallocation of assets. The level of real incomes decreased by half in comparison to 1990 when all sources of incomes were affected. Real wages eroded by over 50% and real pension by around 65%.

The **Economic and Social Council believes** that the solution to the situation can be found in a balanced income policy which would take into consideration the objective realities and would be founded on sensible and productive social dialogue on national, branch and corporate level.

Firstly, it concerns **achieving a stronger link between wages and economic results**.

Secondly, it concerns **improving the social protection of layers of society with lower incomes**. As a result of the restrictive policy, the minimal payments decrease further more and condemn their receivers to poverty. The guaranteed minimal income, specified by the government according to inflation and the possibilities of the budget, can hardly be accepted as an adequate poverty threshold. It is obvious that the social policy needs to be adapted to the new reality.

The **Economic and Social Council believes** that for this purpose, the social security system should be restructured to ensure concentration of funds and their reaching the specific addressee, as well as to ensure mechanisms and stimuli to bring out the socially disadvantaged from this group and providing sufficient own incomes. A socially acceptable threshold should be established which should guarantee an income ensuring physical survival to a satisfactory extent. At the same time, measures for raising education and qualification level of the socially disadvantaged should be additionally activated, so that there are better opportunities for their social inclusion.

11. The problem of lacking qualified labour force is deepening. This problem is felt more and more clearly by Bulgarian business with the increase in employment that has emerged and it has an increasingly stronger impact on competitiveness. The reasons for that are various but those that can be considered the main ones are the ageing of population, the sharp change in the skills that are demanded in the labour market, the restrictive policy regarding incomes, emigration and a certain lagging behind in the quality of education and the system for maintaining and promoting qualification

The Economic and Social Council expresses concern about the tendency that emerged after 1990 of accelerated ageing of the nation. For the 1990-2004 period, the share of population in the age group of up to 15 years has decreased from 20,1% to 13,8, the share of the age group 15-65 has increased from 66,5% to 69,0%, and of the age group of over 65 increased from 13,4% to 17,2%. It is also of concern that one of the phenomena of the aging of Bulgarian population is the brain drain – migration of young highly skilled workers. Moreover, the country lacks the mechanisms and guarantees that this process will not become stronger after 1.01.2007.

According to estimates by the European Commission, in order to compensate for the aging of Bulgarian population, there should be an additional 560 000 economically active people by 2020. Regardless of that, however, if the highly skilled young emigrants do not return in the country, additional efforts, expenses and time for their education and training will be needed.

In this regard, the **Economic and Social Council insists** on making education a national priority. We believe that for this purpose it is necessary to implement a national strategy for development of education, as well as to commit the system for maintaining and promoting qualification to relevant measures in the Operative program “Human

Resources Development". At the same time, we consider it necessary to immediately build tripartite branch council with the Ministry of Education and Science with the main objective of developing standards of competence for main occupations. There should be developed and put into practice a system and mechanisms for stimulating company investments in staff training, for developing a system for training through employer and branch organizations, for hiring young experts immediately after their graduation, for integration processes between education organizations and business organizations. **A possible measure of improving the availability of qualified human resources is pursuing consistent policy for encouraging immigration, especially from the communities of Bulgarian minorities abroad, as well.**

IV. CONCLUSION

The Economic and Social Council, considering the advantages for Bulgarian industry following the country's accession to the EU from 1.01.2007, draws attention to the possible negative impacts and consequences. It insists that the institutions of the Republic of Bulgaria should not ignore them and should undertake immediate actions for their neutralizing according to the rules adopted in the community and national legislation. Particular attention in the short and mid-term should be paid to:

- 1. Boosting general competitiveness of Bulgarian industry on the basis of: unified position for strategic priorities in the development of Bulgarian industry coordinated in an active dialogue among the political powers, state institutions and between them and the social partners; coordinated actions of the state and business for promoting and assisting investments and research and development; developing and implementing a competitive taxation and social security regimes to relieve fiscal pressure on industry and labour.**
- 2. Strictly and steadily maintaining and implementing the priorities of the operative program "Development of Competitiveness of Bulgarian Economy 2007-2013"; providing broad public monitoring and regular evaluation of its implementation with the active participation of the social partners.**
- 3. Developing a unified approach to a complete solution of the problem with regulatory regimes in the country, including at municipal level, not allowing increase in the administrative difficulties facing Bulgarian companies because of the fulfilment of EU requirements.**
- 4. Organizing and conducting mass information campaign among business community for the negotiated terms and requirements regarding the country's accession to the EU by negotiation chapters, issuing specialized and practically oriented collections of specific requirements, texts of normative documents, instructions, specific advice, etc., by sectors, branches, products.**

5. Developing specific plans, programs and schedules for step-by-step implementation of the commitments made in the negotiation process under chapter 22 “Environment”, as well as solving the existing huge number of issues based on a new start of the innovation strategy of the Republic of Bulgaria. The problem of high energy consumption and low energy efficiency of Bulgarian economy should also be put on the basis of modern innovations.

6. Undertaking urgent measures to neutralize the inevitable negative impact on Bulgarian automobile transport and the transport infrastructure in the country.

7. Ensuring the necessary preconditions to exercise strict control and observe European standards and requirements for quality and safety regarding import consumer goods and alimentary products, including textile, as well as not allowing unfair competition in wholesale and retail trade of consumer goods and such which is based on non-observance of labour and social security legislation. Strict observance of norms, rules and requirements of the Consumer Protection Act, the Public Order Act and the relevant enactments.

8. Creating a system for committing increase of work salaries to the achieved economic results, as well as improving the social protection of low income layers of society, on the basis of active social dialogue at national, branch and company level.

9. Committing the implementation of national strategy for development of education and of the system for maintaining and promoting qualification to respective measures in the operative program “Development of Human Resources”.