

TRADE POLICY REVIEW

BULGARIA

Report by the Government

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Bulgaria is attached.

CONTENTS

	<i>Page</i>
I. INTRODUCTION	4
II. ECONOMIC ENVIRONMENT	4
III. TRADE POLICY DEVELOPMENTS (1997-2003)	7
(1) WTO	7
(2) REGIONAL TRADE AGREEMENTS	11
IV. FUTURE POLICY DIRECTIONS	12
(1) STRIVING FOR ECONOMIC GROWTH, QUALITY OF LIFE AND SOCIAL WELFARE	12
(2) WTO NEW ROUND NEGOTIATIONS	13
(3) ACCESSION TO THE EUROPEAN UNION	15

I. INTRODUCTION

1. This first Trade Policy Review of the Republic of Bulgaria gives us an opportunity to present to the attention of the WTO members the results achieved by Bulgaria during the period after its accession to the World Trade Organization in December 1996 and to provide further information regarding the Bulgarian Government policies and programmes. The report is designed to provide information encompassing the economic environment, trade policy developments since 1996 and future policy directions and priorities.

2. Since its accession to the WTO, Bulgaria has decisively progressed with the implementation of economic reforms with a view to establish an effectively functioning market economy that is capable to meet the challenges of the globalizing world.

3. During the period under review Bulgaria has achieved stable macroeconomic environment and sustainable strong economic growth, accelerated the core structural reforms and successfully progressed on the path of meeting the challenges of membership in NATO and the European Union.

4. In order to better integrate in the world economy and succeed in the European and Euro-Atlantic integration Bulgaria implements sound and time-consistent financial, macroeconomic and social policies based on three pillars: maintaining financial stability, promoting solid economic growth and finalizing structural reforms.

5. Extensive institutional and legislative changes took place both in economic and social activities as a result of the process of convergence to the European Union.

6. Following successful stabilization policies in the earlier years Bulgaria built the potential for fast economic growth and fundamentally changed the structure of the economy as necessary pre-conditions for the achievement of ultimate objectives of the Bulgarian Government of ensuring higher living standards and lower unemployment. Higher efficiency and increasing labor productivity, more efficient allocation of resources in the economy are becoming a trend in Bulgaria.

7. Despite certain difficulties in the transition period and unfavourable external environment, Bulgaria has continued to implement liberal trade policies providing broad market access opportunities through opening to foreign competition. The results prove that trade liberalization has only benefited economy.

II. ECONOMIC ENVIRONMENT

8. The reforms implemented over the last six years by the Bulgarian government represent a decisive move forward on the transition path. The sound macroeconomic policies and the implementation of the reforms have shown tangible results in terms of macroeconomic stability and growth.

9. The introduction in July 1997 of the Currency Board Arrangement (CBA) and the subsequent macroeconomic and structural policies succeeded in restoring growth, deteriorating inflation and improving public and investors' confidence. The CBA has been underpinned by a conservative fiscal policy and a sharp acceleration of structural reforms that encompassed agriculture, energy, privatization, completing price and trade liberalization, reform of the social sectors and restructuring and financial discipline in the enterprise sector.

10. Shortly after the CBA introduction the interest rates dropped sharply, inflation declined dramatically reaching single digit rates and the fiscal deficit was substantially reduced. The

Government budget remained broadly balanced registering a surplus of 0.9% of GDP in 1998 and a deficit of the same order of magnitude in 1999.

11. The Currency Board's stability was not shaken during the 1998 international financial crisis, nor was it upset during the grave Kosovo crisis in March-June 1999 or the difficult external environment marked by turmoil in international markets.

12. Following implementation by Bulgaria of sustained policies in its 2002 Regular Report the European Commission recognized Bulgaria as "a functioning market economy able to cope with competitive pressure and market forces within the Union in the medium term, provided it continues implementing its reform programme to remove remaining difficulties."

13. GDP has been recording high levels of growth ever since 1998 – 3.5% in 1998, 2.5% in 1999, 5.4% in 2000, 4.1% in 2001 and 4.8% in 2002 respectively. All GDP components have contributed to the growth.

14. In 2002 despite the inactive developments in global international trade, for the first time since 1997, net exports have contributed positively (by 0.5 %). Final consumption expenditures were still the main factor of growth - 3.6% in 2002 and 3.8 % in 2001. The biggest change (9.3 %) was again registered for gross fixed capital formation. The relative share of investment in GDP had stepped from 16.9% in 1998 up to 20.4% in 2001.

15. The structure of the GDP gradually changed largely due to the expansion of the services sector. In 2002 the relative share of the GVA in the structure of the GDP by economic sectors is as follows: the GVA of services - 52.7%; the GVA of industry – 24.5 %; and the GVA of agriculture – 11%.

16. Inflation was kept at low levels for the last years - 7.4% in 2001 and 5.8% in 2002. Price developments recorded a deflation of -0.5% for the first four months of 2003.

17. Unemployment shows an unsteady tendency towards declining - 16.4% in 2000, 19.5% in 2001, 16.8% in 2002, reaching 13.21% in July 2003 - the lowest level recorded for the last three and a half years. The change in labour policy largely contributed to these results and consisted in transition from passive social protection of unemployed to their inclusion in employment and qualification training.

18. In end-2002 foreign exchange reserves amounted to 4.5 billion euros.

19. The Government continues to conduct tight fiscal policy, aimed at further reduction of the budget deficit below 1% of GDP. Improvement of budget allocation and budget implementation control led to the maintenance of a close to zero government budget balance (-1.0% of GDP in 2000, 0.2% in 2001 and -0.7% in 2002).

20. The current account deficit of the balance of payments in 2002 declined in both nominal terms and as percentage of the GDP compared to the previous year (dropping from -928 million euro and -6.2 of GDP in 2001 to -775 million euro and -4.7% of GDP in 2002) regardless of the EUR/USD exchange rate volatility, interbank interest rates and the uncertainty and collapse of some sensitive international markets.

21. Total external trade increased by 40.1% in the period 1996-2002. The positive trade balance in 1995-1997 was replaced by a trade deficit in 1998. Thus the trend was reversed mainly due to growing prices of oil and gas and imports of investment goods that go along with the inflow of

investments. The analysis of the commodity pattern during the recent years shows that leading in exports are clothing and footwear (20.7% of total export in 2002), non-ferrous metals (7.7% of 2002 export), iron and steel (6.5% of 2002 export), raw materials for food industry (5.4%), machines and equipment (5%), food (4.1%), textiles (3.9%), chemicals (3.5%), furniture and household appliances (3.5%), medicines and cosmetics (2.8%), wood products and paper (2.6%). A very positive trend is the constant increase of exports of investment goods (electric machines, machinery, equipment, vehicles), which account to 12-13% of the exports in 2002. That shows that the higher value-added goods gain position in the Bulgarian exports, moreover they are destined for the highly competitive European markets.

22. Bulgaria is a traditional importer of raw materials, mainly crude oil and natural gas (16.2% of total import in 2002) and textiles (10.3%) and also of investment goods, especially vehicles (5.2%). The internal demand for high-quality consumer goods has led to the increase of their share in the Bulgarian import during the last two years, mainly with regard to clothing and footwear (with 4.4% share), machines and equipment (9.6%), followed by medicines and cosmetics (3.5%) and furniture and household equipment (3.1%).

23. Since 1997 FDI annual inflow has been over US\$ 600 million and in the year 2000 it reached over US\$ 1 billion. Since the beginning of the reforms FDI stock reached USD 5.2 billion (by January 2003), 85 % of which has been attracted since the start of the major economic reforms in 1997. Over the last years, the FDI accumulated per capita increased rapidly, reaching € 470 by the end of 2000.

24. The leading investors in Bulgaria (till the of end of September 2002) are Germany, Greece, Italy, Belgium, Austria and the USA. In the 1990s, the bulk of FDIs was directed to manufacturing, trade and the financial sector while at present foreign investor companies are primarily engaged in the banking sector, the cement industry, non-ferrous metallurgy, chemical industry, electrical engineering, textile industry, food processing and wholesale trade.

25. The economic reforms have resulted in large-scale structural changes. Privatization was conducted through three main programs: restitution of land and urban property, cash privatization, and mass privatization. As a result the tourism, wine industry, textile and clothing, leather and shoe industries, construction, trade and services, which have been privatized relatively quickly, are reporting remarkable sound records.

26. By the end of May 2003, more than 81% of the assets subject to privatization have been privatized. Foreign investors demonstrated highest interest in the following industries and sectors: financial sector, chemical industry, building materials, non-ferrous metals, brewery, confectionary, sanitary and fittings. Privatization in the banking sector was completed. At present all banks are privately owned excluding one bank accounting for 0.3% of total banking assets.

27. All current state-owned companies, with some exceptions, are considered to be in open privatization procedures. As major privatization objectives for the period 2003-04 are set up the restructuring and privatization of the infrastructure industries (energy, telecommunications and railway transport), and rapid sale of the remaining state-owned enterprises.

28. The successive privatization policy resulted in the private sector's growth and export figures' increase in the last years. In 2002 the private sector produced 64.2 percent of GVA in the structure of the GDP and 72.7% of the total GVA, and was responsible for 74.9% of the employment.

29. In 2002 priority was given to the settlement of the key structural issues related to the streamlining of market entry and exit rules, tax measures and labour market regulations. Major

legislative actions were taken to remove obstacles to investors, especially as regards simplification of fiscal requirements and reduction of red tape.

30. Over the last two years, the investment climate has been improved. In terms of income and corporate tax rates Bulgaria has become the most competitive country in CEE. In the line with the comprehensive market-oriented reforms the Bulgarian Government has applied measures for simplification of administrative procedures of site development, land registration and titling system and streamlining of the company registration process. Currently a removal of 21% of the existing licensing, permit and registration regimes applied in the country, as well as the alleviation of another 33%, has been carried out. With a view to simplify the procedures for the establishment of new companies and the introduction of the "one-stop-shop" concept significant steps have been taken to unite the registration under BULSTAT (Bulgarian system of company registration), the tax registration and the Company Register listings, as well as to reduce the terms of bankruptcy and liquidation proceedings.

31. Bulgaria's economy has been recording a robust macroeconomic performance ever since 1997. The successful economic policy of the Bulgarian government led up to the achievement and maintenance of fair and predictable business environment that stimulated the progress of overall economic activities.

32. Bulgaria established a functioning market economy and the Government is determined to continue the economic reforms to further strengthen the market-oriented and competitive economy, ensuring deeper integration into the global economy.

III. TRADE POLICY DEVELOPMENTS (1997-2003)

(1) WTO

33. Trade and trade policies have always played key role in Bulgarian economy. As a small country with liberal trade regime Bulgaria is highly dependent on foreign trade and this is reflected in the high share of imports and exports of goods and services in the GDP (over 80% in the last years).

34. Bulgaria carries out a subsequent policy for liberalization of foreign trade, directed towards increasing of the effectiveness of the production and the competitiveness of the Bulgarian goods. To be competitive on the international markets and integrate efficiently into the world economy, Bulgaria has established an adequate trade policy and adopted international trade disciplines and requirements, moving away from state-trading and protectionist activities.

35. Bulgarian trade has experienced the negative impact of the loss of traditional markets, international embargoes, the Kosovo conflict and the world markets stagnation. After a period of decrease, since 1999 Bulgarian exports have recorded a tendency of successive and stable growth, rising by 39% in the period 1999-2002. The total trade turnover has also increased significantly during the same period – with 40.6%.

36. Despite the delayed revival of the world economy in 2002 and early 2003 and the unfavourable international situation Bulgarian foreign trade turnover continued to grow. In 2002, for the first time since 1998, the export growth registered quicker pace (11.2%) than that of import's growth (8.8%).

37. Total trade turnover rose by 9.2% compared to 2001. Major foreign trade partners of Bulgaria during 2002 were the developed countries (OECD members) with 70.1% of the total turnover. The share of the European Union member countries was 52.5%. The CIS and Baltic countries were the

second major market for Bulgarian trade, accounting for 12.4 % of the total turnover. The share of the CEFTA countries accounted to 6.5 % of total turnover while of EFTA countries only to 1.6%. Trade with the rest of the Balkan countries in 2002 is 3.1% and trade surplus for Bulgaria was preserved.

38. Bulgaria's trade policy is shaped primarily by its WTO membership and by its continued progress as a candidate for EU membership. Accession to the WTO facilitated the country's transition to a market economy, ensured stability of the domestic market and promoted investments, which lead to better competitive conditions for trade.

39. Bulgaria applies all multilateral trade agreements, annexed to the Marrakesh Agreement from the date of accession without recourse to any transitional period. Bulgaria was a Party to the International Dairy Agreement and the International Bovine Meat Agreement. Bulgaria became a Party to the Agreement on Trade in Civil Aircraft at the time of accession to the WTO, and subsequently – from 1 January 2002, to the Information Technology Agreement.

40. Within the framework of WTO Bulgaria has an observer status in the Committee on Government Procurement as of 1997. The process of Bulgaria's accession to the Agreement on Government Procurement officially started in September 2000. Bulgaria carries out government procurement policy based on the principles of transparency, free and fair competition and equal opportunities for all potential contractors.

41. The competitiveness of Bulgaria's exports was enhanced with the elimination of anti-export bias in Bulgaria's trade regime, particularly the elimination of taxes affecting exports and implementation of open and liberal import policy.

42. Since 1 January 1997, the customs clearance fee of 1% *ad valorem* has been eliminated. On 1 July 1998, the temporary import surcharge introduced for balance of payments purposes was reduced and on 1 January 1999, it was completely eliminated, ahead of schedule and in spite of a negative trade balance.

43. All export taxes and temporary bans on exports were removed in the period under review.

44. The existing licensing requirements stem mostly from Bulgaria's obligations under certain international treaties and conventions. The competent authorities issue permits for transactions concerning a limited number of products exclusively for protecting public morals, public order and national security, for safeguarding national artistic, historical and architectural masterpieces.

45. Since 1998 the range of goods requiring automatic licensing has been substantially reduced. Since the beginning of 2001, the procedure for registration of foreign trade transactions has been simplified as the "one-stop shop" system was introduced.

46. Conditions of access to the Bulgarian market and the customs procedures have been simplified too. Reforms of the customs and tax administrations are ongoing in order to enhance the performance of these institutions.

47. The general provisions of the Customs Act and the Implementing Regulation of the Customs Act are harmonized with the European customs legislation and envisage methods for reducing the formalities attached to the customs clearance of goods. Specific registration for customs purposes has not been used since 2001. Since 2001 the Bulgarian Customs Tariff incorporates the two key EU instruments of customs policy - the Combined Nomenclature and the Integrated Customs Tariff. Customs valuation has been switched to the WTO transaction value based system. Necessary

amendments to give effect to this have been made in the Customs Act. The primary basis for determining the customs value is the price actually paid or payable.

48. Despite its acute fiscal imbalances Bulgaria has sought to substantially reduce the level and dispersion of its tariffs. At accession to the WTO Bulgaria bound all its tariff lines.

49. Customs duties and charges on imports are applied in accordance with the Schedule of Concessions and Commitments of Bulgaria attached to the GATT 1994 and with the provisions of the WTO Agreements. Tariff measures, included in the Bulgarian Customs Tariff are comprehensive and predictable, being at present the main instrument of the trade policy.

50. Applied MFN tariff rates have been reduced to a simple average of less than 12% in 2003. In this year the simple average MFN rate for imports amounts to 21.7% for agricultural products and 8.6% for industrial products. Bulgaria applies *ad valorem* duties for all the industrial products with the exception of one tariff line for which a specific rate is applied, and for 83.9% of the agricultural products. Since 1999 zero duty rates have been introduced on an autonomous basis for almost the whole range of goods covered by the Agreement on Information Technology Products within the WTO and since the accession of Bulgaria to the Agreement on 1 January 2002 - zero duties for all products.

51. Bulgaria provides favourable market access under the Generalized System of Preferences to 118 developing and least developed countries. For a large list of goods originating in developing countries Bulgaria applies preferential duties at the rate of 70% of the MFN duty rate and for imported goods originating in LDCs - zero duty rates.

52. Bulgaria applies tariff quotas on MFN basis in accordance with the Schedule of Concessions and Commitments, autonomous tariff quotas and tariff quotas under the free-trade arrangements. All tariff quotas are allocated on a first come, first served basis.

53. The competition policy is based on the principles of transparency, independence of judgment, fairness to the parties, administrative efficiency and equal treatment of all economic operators. The assessment of the compatibility of state aid with the principles of the free competition is performed in conformity with the Bulgarian legislation in force in this field and the commitments of the Republic of Bulgaria under the Europe Association Agreement and other international treaties.

54. Price policy has undergone substantial changes. Further encouraging competition and following the commitments under the IMF and the World Bank programmes, the Government lifted the mandatory profitability rates and profit margins for the basic food products and introduced a mechanism of free contracting of prices. Prices are determined on the basis of supply and demand. The role of the Government in the administration of prices is limited in particular to electricity, coal, central heating, gas, postal services, and cigarettes.

55. In the field of standards, technical regulations and conformity assessment Bulgaria aims at harmonizing the legislation and practices with those of the EU.

56. National standardization is based on the principles of voluntary status, openness and transparency, equality and consensus of all interested parties in the process of development of Bulgarian standards. Major part of the New Approach directives is transposed into Bulgarian legislation as ordinances under the Law on Technical Requirements to Products.

57. The participation of the business community and the financial sector in policy-making is increasing. A Council for Economic Growth was created, aiming to integrate the business community in the policy-making process.

58. Services are the most important sector of the Bulgarian economy. The share of service sector in GDP is rapidly increasing - it reached 58.1% in the structure of the GDP in 2002. Over the past few years, the services sector has been reporting a most robust performance. Foreign direct investment has been mainly attracted by the financial, tourism, transport, telecommunication and construction sectors, comprising approximately 25% of the total FDI in Bulgaria.

59. Bulgaria is providing extensive market access to foreign suppliers of services. In its Schedule of Specific Commitments attached to the GATS, Bulgaria has made commitments across all major service sectors and in more than 90 sub-sectors.

60. Horizontal limitations on market access are restricted only to capital payments, use of nuclear energy for peaceful purposes, privatization, commercial presence and entry and temporary stay of foreign natural persons. With regard to the national treatment they relate to eligibility for granting subsidies, real estate, privatization, and commercial presence. MFN exemptions are scheduled only for audiovisual services, some transport services, legal services, and medical and dental insurance programmes.

61. Notwithstanding its broad and significant commitments in the area of services undertaken in the course of its recent accession to the WTO, Bulgaria actively participated in the extended negotiations on basic telecommunications and financial services in 1997 and 1998 and took valuable additional commitments in these sectors.

62. Following its accession to the WTO Bulgaria also autonomously undertook further liberalization in the different services sectors. For this purpose new laws and amendments in the existing ones have been introduced. They provide for strict and transparent rules for regulation of trade in services.

63. Financial services are one of the most important and well-developed sectors that have undergone significant liberalization. Since 1997 Bulgaria has carried out one of the most radical banking reforms in Central and Eastern Europe and it provides access to banking services on non-discriminative basis. The existing licensing requirements and criteria for authorization are prudential and consistent with the obligations of Articles VI and VII of the GATS. As a result from the reforms undertaken in the sector, 83.4% of the commercial banks were privatized by the end of 2002 and 72% of them comprise foreign owned banks. The confidence in the Bulgarian banking system is rapidly increasing and it already recovers its function as a financial intermediary in the economy.

64. In the area of insurance services, similarly to banking Bulgaria undertook significant reforms and provides quite liberal regime. The insurance and re-insurance services are fast developing, with rapid growth of inputs from life insurance – with 70.3% in 2002 compared to 2001.

65. The dynamic development of the capital market in the period of 1996–99 provoked further legislative amendments which guarantee the investors improved protection, create conditions for the stability of the stock market, ensure equal access and treatment for all participants, and as transparency of transactions.

66. Telecommunication services belong to the most important sectors of the economy. Bulgaria has undertaken and implemented commitments covering the whole range of sub-sectors in compliance with the pro-competitive regulatory framework attached to its Schedule. Since the beginning of 2003

Bulgaria removed the state monopoly over voice telephone services, telex and telegraph services, leased circuit services, mobile services, satellite services and VSAT services for public and non-public use. As a result of that the telecommunications services market in Bulgaria is almost completely liberalized.

67. In the course of Bulgaria's accession to the WTO the country has proved the existence of developed legislative framework for intellectual property rights (IPRs) and their efficient protection. Bearing in mind the importance for the economy of a sound and efficient intellectual property regime Bulgaria has further streamlined its disciplines and practices to guarantee an adequate protection of these rights.

68. The Bulgarian legislation complies with the disciplines of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Furthermore it provides for higher level of protection of intellectual property rights, comparable to the most advanced international standards. Bulgaria has not invoked the right to delay the implementation of the TRIPS Agreement provisions. National legislation was reviewed in the Council for TRIPS in 1997.

69. The Bulgarian authorities have taken further steps to improve protection of intellectual property rights by adopting new laws (Law on Marks and Geographical Indications, Law on Industrial Design, Law on Topographies of Integrated Circuits) in 1999. Further revisions and enhancement of the regime of IPRs and their protection that ensures better level of compliance with international conventions and treaties and EU legislation in the field have been made in 2002. After the accession to the WTO and under the commitments that Bulgaria took in the context of the TRIPS Agreement the legislation was completely developed. The IPRs protection in the adopted legislative measures covers all categories envisaged in the TRIPS. The enhanced level of Bulgarian IPRs legislation also covers the area of the protection of competition. The entire IPRs legislation has been notified to the WTO.

70. Protection of IPRs in Bulgaria is effective because from one side it creates necessary preconditions for observing and enforcement of these rights and, on the other side it leads to rehabilitation of rights in the cases of infringement. The Law on Copyright and Neighbouring Rights (LCNR) as well as the Penal Code contain detailed regulations regarding the infringements in this field. The latest amendments to the LCNR, that entered into force on 1 January 2003 strengthen the sanctions against infringements. Special attention is drawn to the border control. In 2000 the Council of Ministers adopted Regulation No. 249 on Border Measures for Protection of Intellectual Property Rights. The regulation contains detailed rules on the application of border control measures as provided for in the Law on Copyright and Neighboring Rights, the Law on Marks and Geographical Indications and in the Law on Industrial Design.

71. The Republic of Bulgaria is a party to all major international treaties, conventions and agreements in the field of intellectual property rights (over 20). In 2001 Bulgaria ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty and as from 1 July 2002 applies the European Patent Convention.

(2) REGIONAL TRADE AGREEMENTS

72. Bulgaria is a party to a number of free trade agreements the main objective being to support through regional trade co-operation the transformation of the economy to a free market system and to strengthen the regional economic integration and stability.

73. The Europe Agreement establishing an Association between the European Communities and the Members States (EAA), on the one part, and the Republic of Bulgaria, on the other part, was signed in March 1993 and entered into force on 1 February 1995. The Interim Agreement on Trade

and Trade Related Matters covering trade components came into force on 31 December 1993. The EAA was notified to and examined by the WTO Committee on Regional Trade Agreements.

74. In accordance with the trade provisions of the EAA, the imports into the EU of industrial products originating in Bulgaria (since 1 January 1998) and the imports into Bulgaria of industrial products originating in the EU (since 1 January 2002) is completely liberalized. The measures having equivalent effect to customs duties and non-tariff restrictions regarding trade in industrial goods are also completely abolished. The EAA is more comprehensive than other agreements including also provisions concerning payments, capital movement, trade in services, competition, approximation of legislation, cooperation in different fields, etc.

75. The Republic of Bulgaria has also a free trade agreement with the member states of EFTA and has also acceded to CEFTA as of 1 January 1999. Bilateral free trade agreements have been concluded with Turkey, Macedonia, Israel, Lithuania, Latvia and Estonia.

76. In 2001 Bulgaria signed a Memorandum of Understanding on Trade Liberalization and Facilitation between countries in South-Eastern Europe within the framework of the Stability Pact. Hence in accordance with its obligations, Bulgaria finalized the negotiations on conclusion of free trade agreements with Serbia and Montenegro, and Bosnia and Herzegovina. The FTA with Albania was signed on 26 March 2003 and its entry into force is pending.

77. The Bulgarian Government is committed to the stabilisation and enhancement of the multilateral trading system, including the negotiations on the rules by which the system is governed. The implementation of the regional trade agreements, which are in conformity with the WTO rules, has demonstrated that such agreements are effective and complementary instruments to the multilateral trading system and expansion of trade.

IV. FUTURE POLICY DIRECTIONS

(1) STRIVING FOR ECONOMIC GROWTH, QUALITY OF LIFE AND SOCIAL WELFARE

78. The priorities of the Bulgarian Government are focused on economic growth, quality of life and social welfare and are formulated on the basis of the results in reforms in Bulgaria during the period 1996-2002.

79. The major programmes adopted by the Bulgarian Government are the following: Government Program "People are the Wealth of Bulgaria" (October 2001); Pre-accession Economic Programme 2002-2005 (August 2002); Mid-term Fiscal and Expenditure Policies over the 2003-2005 Period (May 2002); National Development Plan 2000-06 (updated in April 2003); National Agriculture and Rural Development Plan (2000-06).

80. The Government policies and programmes framework emphasizes on macroeconomic stability anchored by the Currency Board Arrangement (CBA). The Bulgarian authorities are committed to preserve the CBA until accession of the country in the EU.

81. In the focus of the policy of the Bulgarian Government is to achieve sustained economic growth as high as 5-7% on average per year until 2005. The current account deficit, which reached about 4.7% of GDP in 2002, is projected to decline to 3,2% in 2005. Financial and budget discipline will be strictly maintained in the budget deficit reduction policy with targeted zero deficit in 2005.

82. The expenditure policy seeks to optimise and reduce the public sector share, ensure a reliable safety net and promote the public welfare. Strict fiscal discipline is in force and the fiscal reserve position will be managed in order to maintain an adequate level that will minimize the fiscal risk.

83. The debt management objective is to keep the external debt/GDP ratio at its current levels (49.4% in 2002) in 2003-05 and to achieve levels that meet the Maastricht Criteria while the possibilities for debt restructuring and active management are considered.

84. In order to achieve the optimum market access outcomes in its trade policy Bulgaria applies a fully integrated bilateral, sectoral, regional and multilateral approach. The objective to increase the access for Bulgarian companies to foreign markets measured by focused approach across key portfolios of priority goods and services for Bulgarian suppliers.

85. The Bulgarian Government determines five priority areas as the pillars for sustained economic growth in Bulgaria: communications and high technologies; energy, tourism, transport, agriculture and forestry. In this areas efforts will be focused in further optimisation of applied policies and emphasis on development of potential market opportunities.

86. Maintaining a strict privatization policy the Bulgarian government objective is to finalize the process of privatization within the shortest term possible and to complete the restructuring and privatization of the infrastructure monopolies by 2004.

87. The Bulgarian industrial policy will be managed in line with the process of globalisation of the economy, encouragement of innovations, productivity growth, increased quality, standards and competitiveness, as well as investment promotion.

88. The Government envisages strengthening of the investment-friendly environment in order to enlarge the scope of opportunities for attracting green field investments and will continue to maintain an open and highly transparent investment regime.

89. In the social sector the Bulgarian Government policies are targeted to the following priorities: job creation and higher income; more flexible labour market; cutting down the unemployment by 150,000 in 2002-05; formulation of a new income policy concept; substantial rise in children's allowances; guaranteed social security nets for the socially vulnerable groups; promotion of social dialogue.

90. The Government programmes measured to achieve sustained economic growth, higher quality of life and social welfare are designed in the context of the process of accession of Bulgaria to the EU which is the highest priority of the Bulgarian Government policy.

(2) WTO NEW ROUND NEGOTIATIONS

91. Bulgaria undertook considerable commitments under all WTO Agreements at the accession to the WTO. Nevertheless Bulgaria strongly supported the launch of a new round of multilateral trade negotiations within the framework of WTO that would ensure benefits for all Members. In the WTO negotiations Bulgaria is guided by the principles envisaged in the Doha Declaration, the main of them being that overall outcome of the negotiations has to be sufficiently positive for all Members.

92. The areas of a greater importance for Bulgaria in the new round of multilateral negotiations are the agricultural issues, improvement of market access for agricultural and non-agricultural products, further enhancement of trade in services, and extension of the protection of geographical indications under the TRIPS Agreement.

93. Bulgaria attaches great importance to the negotiations on agriculture and supports their objectives to establish a fair and market-oriented agricultural trading system. Bulgaria is interested in improving its market access to other countries, strengthening the rules on measures having effect on export competition (including such issues as export financing, state-trading enterprises, export subsidies) and support, provided to farmers. Bulgaria is also of the view that due account should be paid to the specific constraints, faced by transition economies, mainly in the field of domestic support for agricultural producers. Hence, we continue to endorse the preservation of possibilities for effective support of agriculture and for a successful re-structuring of the sector in these countries.

94. As a small country, heavily dependent on foreign trade, Bulgaria attaches importance to the reduction of high tariffs for industrial products and elimination of non-tariff barriers. The approach should be comprehensive, leaving no sector excluded from tariff negotiations. Reductions of tariff peaks must take into account the specific needs of countries in transition.

95. Bulgaria is interested in the opening of foreign services markets for its suppliers and in the further liberalization of services markets in sectors where it has comparative advantages. Bulgaria supports the position that progressive liberalization in trade in service within the WTO should encompass all sectors and it must be performed in the direction of diminishing the existing imbalances in the commitments of different countries in the different sectors and modes of services supply. Bulgaria aims at having its liberalization, undertaken autonomously, recognized and taken into account by other trading partners.

96. The extension of the additional protection for geographical indications under Article 23 of the TRIPS Agreement to products other than wines and spirits is important for Bulgaria. The risk of misleading the consumers about the qualities and special characteristics of products originating in a specific region and products not originating in that region but using the same denomination is important and damaging for any product, not just for wines and spirits.

97. Bulgaria also supports the establishment of a multilateral system of notification and registration of geographical indications, which should be open for all products and which should ensure appropriate procedures for registration and protection.

98. Bulgaria is committed to the mandate agreed upon by all Member States of the WTO in the Doha Declaration on the TRIPS Agreement and Public Health for finding of an expeditious and fair solution that will allow the effective use of compulsory licenses by countries with insufficient manufacturing capacities. It is our view that only a multilateral agreement on this matter will guarantee the workable, sustainable and legally secure basis for such a solution in the line and spirit of the Doha Declaration.

99. Bulgaria strongly supports the review of the special and differential treatment provisions with a view to strengthening them and making them more precise, effective and operational. This is possible only on the basis of objective and clear criteria and economic indicators. Rights and privileges and flexibilities for the fulfilment of obligations should not be given to subjectively defined categories of countries, but on the basis of objective criteria only. Furthermore, special rights, privileges and flexibilities in the fulfilment of obligations, given to different categories of countries, should be granted to any Member who meets the objective criteria and/or economic indicators, underlying such categorisation.

100. Bulgaria supports the efforts to further strengthen and clarify WTO rules improving the disciplines under the Agreement on Implementation of Article VI of the GATT 1994 and the

Agreement on Subsidies and Countervailing Measures and thus achieving equal opportunities for open trade for all WTO Members.

101. With regard to the negotiations on improvement and clarification of the Dispute Settlement Understanding, we expect that during the negotiations due account shall be given to the constraints of small countries with insufficient expertise and limited financial and human resources. One of the issues of importance for Bulgaria in this area of the negotiations is not to shorten the time frames of panel proceedings, which are even now shorter than those in other international judicial bodies.

102. Bulgaria is on a view that the competitive markets have to be more open for new entrants and have to be able to respond to the fast-developing customers demands. In this context multilateral rules related to trade and competition shall contribute for eliminating of anti-competitive behaviour and achieving optimum benefits in result of improved competition on international markets.

103. Bulgaria attaches great importance to the investments and their significance in building long-term economic relations among WTO Members. Bulgaria's position is that the establishment of multilateral rules on investment shall provide fore more transparent, stable and predictable conditions for long-term cross border investment and shall have an impact on the expansion of trade.

(3) ACCESSION TO THE EUROPEAN UNION

104. The membership in the European Union is a strategic goal for Bulgaria. The EU accession effort rests, among other things, on the Bulgarian broad public support and the Government's political will to successfully complete preparation for EU membership.

105. Bulgaria submitted an application for European Union membership in December 1995. Helsinki European Council in December 1999 adopted a decision to open accession negotiation with Bulgaria. Following that decision, on 15 February 2000 at a meeting of the Negotiating Session at the level of ministers, negotiations were officially launched.

106. The negotiations on the accession of Bulgaria to the EU are in an advanced stage. After the Copenhagen European Council in December 2002 defined the political framework for the achievement of the aim for membership of Bulgaria in the EU in 2007, the Bulgarian Government has concentrated its efforts to provide all necessary resources in order to finalize the negotiations on the accession in 2004. Up to the end of June 2003 the negotiations have been preliminary concluded with regard to 25 out of 30 negotiating chapters. In June 2003 the Thesaloniki European Council has further specified the mandate for negotiations with Bulgaria. Thesaloniki European Council confirmed the aim for the membership of Bulgaria in the EU in 2007 and supported the goal of Bulgaria to finalize the negotiations in 2004, giving to our country the opportunity to achieve the aim for membership in the EU as from January 2007.

107. The overall assessment for the economy development reflected in the 2002 Regular Report of the Commission was that Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme. Bulgaria has achieved a high degree of macroeconomic stability and market mechanisms are now working sufficiently to allow for a better allocation of resources. Good progress has been made in structural reforms, especially as regards procedures for market entry, the restructuring of the financial sector and privatization, thus setting the microeconomic basis for a process of sustained growth.

108. Bulgaria has made considerable progress in consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of

minorities. Significant progress has been made in the judicial reform strategy with the adoption of an Action Plan and major amendments to the Law on the Judicial System. There have also been positive further developments in the fight against corruption, with the adoption of an action plan to implement the National Anti-Corruption Strategy. Bulgaria has considerably improved the legal framework for tackling trafficking, corruption and organised crime.

109. Another area with further progress is the public administration reform with the recent revisions to the legislative framework and the adoption of a Strategy for Modernisation of the State Administration.

110. The assessment of the EU is that Bulgaria has made substantial improvements in its legislation in the economic area by amending the existing laws and regulations or drafting new ones and thus has successfully completed the process of the alignment with the EU in this field.

111. Trade policy and practices applied by Bulgaria are already harmonized to a considerable extent with that of the EU. Any future steps related to the adoption and implementation of the Common Commercial Policy at the time of Bulgaria's accession to the EU will be conducted in full compliance with the WTO principles and rules.

112. The Bulgarian Government does not envisage that its EU membership will adversely affect its relationships with third countries. On the contrary, the Bulgarian Government is firmly convinced that benefits will arise out of the accession to the EU for Bulgaria and for third countries as well.
