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BULGARIA'S ACCESSION TO THE EUROPEAN UNION FROM A EUROPEAN BUSINESS PERSPECTIVE

The European Commission's 2004 progress report painted a picture of Bulgaria's readiness for EU accession that is broadly in line with the views of European business.

With a view to the remaining challenges, it is welcome that Commission and Council have the possibility in the framework of "enhanced monitoring" to defer the country's EU accession by up to one year in the event of failure to comply fully with the EU accession criteria and/or all negotiated agreements.

In order to assess Bulgaria's readiness for accession, in 2005 European business carried out a cross-sectoral and international survey among, industry, commerce and services which work in or with the country. The findings are the basis for a general assessment of the country as well as specific recommendations from companies to Bulgaria. Building on this, business recommends Bulgarian accession to the EU in 2007 provided that reform efforts are pursued.

General assessment of European business

Macroeconomic stabilisation, progress with structural reforms as well as the clear prospect of EU membership have increased European companies' interest in Bulgaria as a business location in recent years. Among the main reasons for their existing or planned activities in the country, companies say that, on the basis of the expected medium-term improvement in legal and planning certainty for businesses as a result of EU accession, they:

- want better access to a market that is growing more dynamically than the EU average;
- see opportunities they want to realise for trade and investment due to the inflow of EU funds;
- want to take advantage of favourable production conditions (e.g. good labour market flexibility, comparatively low labour costs and tax), in order to be able to serve domestic and foreign demand, especially for labour-intensive goods, from a Bulgarian base.

Companies see Bulgaria's strength as a business location in its willing and well trained workers, generally available in adequate numbers. A positive assessment is also given to improved access to bank loans and the Bulgarian tax system with a 15% corporation tax rate.

With regard to the investment climate as well as complete transposition and implementation of EU law, European business sees a continuously positive upward trend over the last three years. Nevertheless, this trend shows only the direction and not the strength of the effect in the country. European business expects all political forces in the country to focus their efforts on further improving and stabilising the business environment as well as on securing full and even transposition and implementation of EU law at all levels across the country.

Specific European business recommendations to Bulgaria

A survey of European companies and their organisations reaches the conclusion that Bulgaria has made great progress in its preparations for EU accession. However, efforts must be intensively pursued to secure accession in 2007. In addition to establishment and extension of effective administrations and courts at all levels, particular emphasis should be placed on:

- **Combating corruption and the informal economy**

While progress has been made in combating corruption, further improvements are expected in the near future. A clear majority of companies continue to see a pressing need for action. The government should implement the anti-corruption strategy and action plan promptly. It should do so completely and with resolve, and continue to give the issue high political priority, also by giving all relevant bodies clear and reliable orientation.

In order to avoid distortions of competition, in particular for small and medium-sized enterprises, the still extensive informal economy needs to be squeezed further. Illegal competition makes it difficult for companies to stand their ground in national and increasingly in international competition.

In some cases Bulgaria seems to be used as a hub for neighbouring countries to export goods into the EU. Bulgaria should therefore fully implement effective border controls.

- **Dismantling bureaucracy and administrative hurdles**

Companies continue to experience a heavy bureaucratic load and face administrative hurdles. In addition, changes in legislation tend to be tentative and frequently make it difficult for business, especially foreign investors, to comply with. Administrative rules and procedures should be verified to see whether they are necessary, scrapped where possible and further streamlined. Consistent dismantling of bureaucracy would further improve the business environment, in particular for small and medium-sized enterprises.

The law adopted in July 2004 for small and medium-sized enterprises as well as the law on streamlining administrative regulations and administrative controls (December 2003) point in the right direction. The associated legal and institutional adjustments should be transposed rapidly and in a targeted fashion, and effectively implemented. The deregulation steps already taken are encouraging and should be continued with determination, including via revision of secondary legislative provisions.

Consistent reform of state administration could lower the burden of a restrictive regime for registration, admission and licensing. "One-stop-shop" licensing and registration throughout the country as well as the principle of silent registration and licence approval should be applied. Strong post-registration / licence supervision should be envisaged.

- **Establishment of legal certainty and faster possibilities for enforcing legal rights**

The full transposition and implementation of EU law and in particular improved performance and higher efficiency in the administration and justice system are preconditions for enhancing the legal and planning certainty of domestic and foreign companies.

Clear and stable framework conditions for business as well as efficient and transparent legal procedures are of major importance for investors. That applies, *inter alia*, to regulations concerning the environment or, even more important, to specific aspects of company law. Bulgaria should do its utmost to allow companies to enforce their industrial and intellectual property rights better and more rapidly in the event of conflicts (i.e. piracy, counterfeiting). There continues to be a need for action here, in particular with regard to improved cooperation and coordination between the competent bodies.

- **Consistent continuation of structural reforms and privatisation**

In order to exploit the country's full economic potential and attract further foreign direct investment, structural reforms and further privatisation steps should be given priority, in particular on infrastructure markets. Creation of small and medium-sized enterprises should be promoted, and their competitiveness on European and international markets strengthened.

With a view to small and medium-sized enterprises, the Economics Ministry and SME Agency should build up sufficient capacities to do justice to the objectives of the law for small and medium-sized enterprises. In addition, clear competences should be assigned for implementation of a credible and viable enterprise policy.

In order to further improve the business environment, policy-makers should involve companies and their organisations at an early stage and in a results-oriented manner. Business can play a particular role in impact assessment of legislation. Business organisations can play an important role in flanking companies on national and European markets. The government and administration throughout the country should support horizontal and sectoral business organisations in support of the sustainable development of industry.

- **Improvement of infrastructure**

A high-quality infrastructure remains a decisive criterion for the success of business activities. In this area, quality and availability need to be improved, in particular the transport infrastructure. For instance, roads need to be comprehensively upgraded as rapidly as possible, and bottlenecks eliminated, including through the use of private capital (PPP). A more efficient railway system would require a further modernisation of the track infrastructure and rolling stock. Air transport could be improved by extending runways and increasing handling capacities. Extension of the transport infrastructure should be a priority for public investments.

In the telecommunications sector, further market opening and competition-oriented regulation could help to improve the nationwide availability of high-quality services.

- **Enhanced transparency in public procurement**

In many cases public procurement awards give rise to criticisms from the business community due to procedural inconsistencies and use of public monies that is not always optimal. Hence, the adoption of a new public procurement law is welcome.

In the near future, it should be ensured that public works, delivery and service contracts are awarded using transparent procedures in competition, taking account of the principles of equal treatment and non-discrimination. For Europe-wide public procurement procedures, the European public procurement directives should be transposed by the accession date and their even application guaranteed. At the same time, a procedure should be put in place which effectively ensures effective and prompt examination of infringements of Community public procurement legislation or of the national provisions implementing this legislation. Express support should be given to the introduction of electronic procedures for awarding public contracts.

In the case of co-financed projects, business expects the European Commission and international lenders to maintain even closer contact with the competent Bulgarian authorities. In practice, it seems useful for successful implementation if lenders accompany projects in all phases, in order to ensure greater transparency. A procedure along these lines would be a further contribution to increasing legal and planning certainty for domestic and foreign companies. In addition, better ways should be sought for lodging complaints and making dispute procedures simpler and cheaper.

Conclusion

European business believes that a great deal of action is still needed in Bulgaria if all obligations are to be met and transposition and even implementation of the entire *acquis*, in particular Internal Market legislation, is to be completed by the time of accession.

Provided that Bulgaria continues its committed and goals-oriented approach, on the present assessment the country's accession to the EU should be possible in 2007.

In this context, the European business community will continue to monitor closely Bulgaria's administrative, legislative and commercial environment so that any dysfunctions or distortions of competition can be addressed readily and effectively prior to accession.