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Bulgaria and Romania:
Paths to EU Accession and the Agricultural Sector

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Centre for Rural Economy Discussion Paper Series No. 17

July 2008

Summary

Bulgaria and Romania became members of the EU on 1st January 2007, bringing the number of member states to 27. For both countries, transition to a market economy has been a difficult and painful process. Economic and financial instability prevailed through much of the 1990s, with a series of major economic crises. Following reform packages involving the IMF and World Bank, the economies of both countries stabilised and began to recover, helped also by politicians being forced to focus their agenda on membership of the EU. Agriculture is still highly important in both countries. Half of the population of Bulgaria and Romania live in rural areas. In the early years of transition, agricultural employment actually rose, as the sector absorbed surplus labour shed from other parts of the economy. Given its importance, agriculture became one of the most debated 'chapters' in the accession negotiations. The implementation of the CAP is expected to bring benefits to some Bulgarian and Romanian farmers, but many of the rural poor in these countries are likely to miss out.

Introduction

A Treaty of Accession signed in April 2005 paved the way for Bulgaria and Romania to become members of the European Union (EU) as of January 2007. This followed the enlargement of the EU that took place in May 2004 with the accession of ten new members, mainly from Central and Eastern Europe (CEE). This paper offers a background to the general economic conditions in Bulgaria and Romania and the countries' paths to accession. Given its importance in both countries, the second part of the paper focuses on the rural economy.

Economic transition

Romania is twice as large as Bulgaria in geographical area, with three times the population (Table 1), being the second largest country within the New Member States (NMS) after Poland, and the ninth largest member state in the EU27. Located in South Eastern Europe, the two neighbouring countries share a common border of 631 km. Their accession to the EU has increased the population of the Community by 29 million, or 6.4 per cent. With an average population density of 91 inhabitants/km^2 (Romania) and 70 inhabitants/km^2 (Bulgaria), however, they are less densely populated than the EU27 which has an average of 113 inhabitants/km^2 (EC, 2002).

Table 1: Country Size, 2005

	Bulgaria	Romania	EU27
Population			
- million	7.8	21.7	489
- % of EU27	1.6	4.4	100
Area			
- '000 km^2	111	238	4,324
- % of EU27	2.6	5.5	100

Source: Eurostat.

There is little doubt that the transition to a market economy for both Romania and Bulgaria was a difficult and painful process. Begun in the early 1990s, the transition process was characterised by a slow pace, resistance to structural changes, inconsistent reforms and ad-hoc political decisions. During communism the economic and political characteristics of the two countries were similar in many respects, e.g. autocratic regimes, central planning of resource allocations and an emphasis on inefficient, heavy industries. Nevertheless, despite a common socialist legacy (e.g. an unstable economic and social environment, loss of external markets, high levels of bureaucracy and corruption, and poverty), the two countries' starting positions for transition to market economies were not identical.

Romania began transition at a serious disadvantage, with significantly worse conditions than those existing in the leading reform countries, e.g. the Czech Republic, Hungary and Poland (Dãianu, 1999, World Bank, 2005). Until 1990, the Romanian economy was almost entirely controlled by the state. The Communist Party, as the leading and guiding force of society, created a central planning and command system which totally ignored market mechanisms. Obsessed with industrialisation and national self-sufficiency, the Party established, during the late 1960s, a number of large-scale and energy-intensive heavy industries.[1] Constantly dependent on rather limited domestic energy resources and imports, particularly oil, these enterprises were highly inefficient. The oil crises during the 1970s worsened the economic situation, forcing Romania to borrow large amounts of external finance. As a consequence, at the beginning of the 1980s the external debt represented between 20 and 30 per cent of GDP (Gross Domestic Product) (OECD, 2000). The political decision of the communist regime to re-pay the external debt caused an imbalance in the structure of the economy, a drastic decline in supply of an important number of products (particularly food), and a severe deterioration in the welfare of the population. Between 1985 and 1989, food shortages became acute, and an austere food rationing system was imposed as an 'optimal' solution. At the end of 1989, the external debt was entirely re-paid, but at a high price in terms of domestic consumption and standard of living.

Romania was a particular case of 'immiserising growth' by rushing the speed of industrial development and increasing its links with market economies (Dãianu, 1999). In principle, this phenomenon implies the existence of various price distortions which affect resource allocation, worsen the terms of trade and reduce welfare (Bhagwati, 1958). Dãianu (1999), however, argued that, in Romania's case, the distortion was based mainly on the inability of the economy to assimilate and generate technological progress, which resulted in industrial goods with a low value-added and led to a deterioration in the terms of trade.

In contrast, Bulgaria commenced transition with a heavy foreign debt, relatively high levels of market distortion, limited exposure to market institutions and potentially unsafe nuclear-generated power sources (World Bank, 2002). Moreover, compared with other communist countries, Bulgaria's trade was very much integrated with and dependent on Soviet markets, with exports and imports in the COMECON (Council for Mutual Economic Assistance) accounting for over 60 per cent of GDP (OECD, 1998). Its links, both economically and politically, with the Soviet Union were very strong. The Soviet Union supplied raw materials and energy at subsidised prices and absorbed a large part of Bulgaria's industrial products (IMF, 2001). Thus, during communism the "Bulgarian economy resembled a smaller version of the Soviet economy …, a second clear test case of the Stalinist model of rapid state-controlled industrialization" (Lampe and McIntyre, 1998, p.602). During the 1980s, attempts to implement several economic reform plans failed. With economic pressures

[1] By 1989, 1,075 units, each with more than 1,000 workers, accounted for 51 per cent of all enterprises, supplied 85 per cent of total industrial output and employed 87 per cent of the industrial labour force (Dãianu, 1999).

mounting, investments were cut back, and the government continued to borrow heavily from foreign markets (IMF, 2001). At the end of 1989, Bulgaria had accumulated an external debt equivalent to 150 per cent of its GDP (World Bank, 2002).

Since 1990, Bulgaria and Romania have had similar economic experiences, although there are some notable differences. The collapse of the command system and the COMECON and the loss of the Soviet Union market had particularly dramatic effects on both economies. In the first three years of transition, real GDP declined significantly and inflation and unemployment rose rapidly. Economic and financial instability prevailed in both countries until 1997. Moreover, in Bulgaria a high turnover of governments created confusion and political instability. Both countries experienced resistance to the implementation of structural reforms and postponed privatisation. The state was still in control of a large part of the economy and significant subsidises were allocated to the loss-making state-owned enterprises. As a consequence, major economic crises occurred during the 1990s in both countries, but particularly Bulgaria.

Inadequate financial discipline, managed by an unstable and de-capitalised banking system, associated with a foreign exchange crisis and lack of confidence in the monetary policies of successive failing governments, led in early 1997 to the collapse of the Bulgarian economy (IMF, 2001; OECD, 1998). The government was obliged to resign and new pro-reform forces came into power. Assisted by the International Monetary Fund (IMF) and the World Bank, the new government agreed to operate under a currency board arrangement. The national currency (Lev) was 'anchored' to the German Deutschmark until December 1998, and since January 1999 to the Euro. The 1997 upheaval and a new approach towards comprehensive structural reforms, including the currency board arrangement, had a marked effect on the Bulgarian economy. Sound macroeconomic policies were adopted and a strict and coherent financial discipline imposed. The GDP growth rate increased by 3 per cent in 1998 and 1999, and the hyperinflation of 579 per cent at the end of 1996 fell to just 6 per cent at the end of 1999 (IMF, 2001; World Bank, 2002). The stabilisation of the economy opened new opportunities for foreign investors. Whereas the annual foreign direct investment (FDI) inflow in 1997 accounted only for US$505 million, by 2000 it had almost doubled (Hunya, 2002).

Romania's economy followed somewhat similar patterns between 1990 and 1997. The lack of a clear strategy and the inconsistency of ad-hoc policies with regard to macroeconomic and structural reforms resulted in slow economic progress. Despite some efforts in the direction of privatisation, the process was limited. Many large, inefficient companies retained state support. As in Bulgaria, the absence of a strict financial discipline allowed these enterprises to accumulate substantial debts or "arrears" which prolonged their survival (Dãianu, 1999). These arrears, which in 1996 accounted for more than 34 per cent of GDP, slowed down restructuring and misallocated resources that otherwise could have been used more efficiently elsewhere within the economy.

A shock therapy programme introduced at the beginning of 1997 by a new government did not have the expected success. Although some important measures were taken in order to pursue macroeconomic stability, such as liberalisation of prices and the exchange rate, removal of subsidies and promotion of direct investment, privatisation and restructuring still advanced slowly. In 1999, the economy faced a severe financial crisis and the relationships with its international creditors were gridlocked (World Bank, 2005). However, with the assistance of the World Bank, an economic reform package was designed. Moreover, the decision taken in Helsinki by the European Council at the end of 1999 to open negotiations for the accession of Romania and Bulgaria worked as a catalyst for further economic progress. Romanian politicians focused their agenda on future membership of the EU. As a first step, the Romanian government adopted, in March 2000, a Medium Term Economic Strategy (for 2000-2004) which focused on "the creation of a smoothly functioning market economy, consistent with EU principles, norms, mechanisms, institutions and policies" (Guvernul Romaniei, 2000, p.3).

Since 2000, macroeconomic trends have shown distinct improvement in both Bulgaria and Romania. The GDP in both countries has been growing significantly (Table 2). GDP per capita is still only one third of the average in the EU25, but both countries were classified by the World Bank as upper-middle income economies in 2005. Bulgaria has averaged a surplus in its government budgets in recent years and, more impressively, government debt has fallen from over 70 per cent of GDP to under 30 per cent. In Romania, the government has run deficits since 2000, but its government debt in 2006 was only 12 per cent of GDP. In both countries, the level of public debt is well *below* that of any western European country. The official rate of unemployment has been higher in Bulgaria than in Romania, but was less than 10 per cent in both in 2006. Inflation slowed in both countries over the seven years to 2006. In Romania it fell from over 40 per cent to less than 7 per cent (Table 2).

Table 2: Economic Indicators, 2000-20006

	2000	2001	2002	2003	2004	2005	2006
Bulgaria							
Real GDP growth rate (annual % change)	5.4	4.1	4.5	5.0	6.6	6.2	6.1
GDP per capita (EU25=100)	26.5	28.0	28.4	31.1	32.3	33.6	35.7
Government deficit/surplus (% of GDP)	-0.5	1.9	0.1	-0.9	2.2	1.9	3.3
Government debt (% of GDP)	73.6	66.2	54.0	45.9	37.9	29.2	22.8
Unemployment (% of labour force)	16.4	19.5	18.1	13.7	12.0	10.1	9.0
Inflation rate (% annual change)	10.3	7.4	5.8	2.3	6.1	6.0	7.4
Romania							
Real GDP growth rate (annual % change)	2.1	5.7	5.1	5.2	8.5	4.1	7.7
GDP per capita (EU25=100)	24.9	26.1	28.1	29.9	32.5	34.1	36.3[f]
Government deficit/surplus (% of GDP)	-4.6	-3.3	-2.0	-1.5	-1.5	-1.4	-1.9
Government debt (% of GDP)	22.7	...	23.8	21.5	18.8	15.8	12.4
Unemployment (% of labour force)	7.2	6.6	8.4	7.0	8.1	7.2	7.3
Inflation rate (% annual change)	45.7	34.5	22.5	15.3	11.9	9.1	6.6

Source: Eurostat. GDP is gross domestic product. [f] Forecast. .. not available.

The economic structure of Bulgaria and Romania is shown in Table 3. Agriculture is important and accounts for around 10 per cent of gross value added (GVA) in both countries. Nevertheless, as a broad indicator of economic development, services account for over half of GVA. Gross fixed capital formation (investment) represents around one quarter of GDP in each country, which is higher than in some EU15 countries, including the UK. Inward FDI has been increasing in both countries in recent years, and in 2005 totalled €5 billion in Romania and €2 billion in Bulgaria.

Table 3: Economic Structure, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Bulgaria							
Agriculture (% of GVA)	13.9	13.4	12.2	11.7	11.0	9.4	8.5
Industry & construction (% of GVA)	30.1	29.6	28.7	29.1	29.2	29.4	31.5
Services (% of GVA)	56.0	57.0	59.1	59.2	59.8	61.2	60.0
Gross Fixed Capital Formation (% of GDP)	15.7	18.2	18.2	19.3	20.5	24.2	26.2
Foreign Direct Investment (€m)	1,103	903	980	1,851	2,078	2,113	..
Romania							
Agriculture (% of GVA)	12.4	14.7	12.6	13.0	14.1	9.6	9.1
Industry & construction (% of GVA)	36.0	36.4	37.4	34.7	34.3	34.5	34.9
Services (% of GVA)	51.6	48.9	50.0	52.3	51.6	55.9	56.0
Gross Fixed Capital Formation (% of GDP)	18.9	20.7	21.3	21.4	21.8	23.1	24.6
Foreign Direct Investment (€m)	1,147	1,294	1,212	1,946	5,183	5,197	..

Source: Eurostat. GVA is gross value added. GDP is gross domestic product. .. not available.

External trade is important for both countries. In Bulgaria, exports and imports each equate to over half of GDP (Table 4). Bulgaria's negative trade balance has been increasing in recent years. In Romania, exports and imports amount to a smaller share of GDP, but again the trade balance has been worsening. Around 70 per cent of Romania's exports and 60 per cent of Bulgaria's exports are destined for the EU25. Similarly, over 60 per cent of Romania's imports and over 50 per cent of Bulgaria's imports are from the EU25 (Table 4). These shares underline the importance of the EU market to both economies.[2]

[2] The relationship between exports, investment and economic development in both Bulgaria and Romania is examined by Dritsakis (2004).

Table 4 External trade, 2000-2005

	2000	2001	2002	2003	2004	2005
Bulgaria						
Exports (% of GDP)	55.7	55.6	53.1	53.6	58.0	60.8
Imports (% of GDP)	61.1	63.2	59.7	63.0	68.2	77.4
Trade balance (€m)	-1,832	-2,414	-2,348	-2,942	-3,635	-3,274
Share of exports to EU25 (%)	54.4	58.2	59.3	60.1	58.3	56.8
Share of imports from EU25 (%)	49.4	54.7	55.6	55.3	54.1	58.2
€ exchange rate (€1 = BGN)	1.956	1.956	1.956	1.956	1.956	1.956
Romania						
Exports (% of GDP)	32.9	33.3	35.4	34.7	35.9 p	33.0 p
Imports (% of GDP)	38.5	41.1	41.1	42.2	45.0 p	43.4 p
Trade balance (€m)	-2,962	-4,661	-4,206	-5,588	-7,346	-10,313
Share of exports to EU25 (%)	69.4	73.5	72.6	73.6	72.8	67.4
Share of imports from EU25 (%)	64.6	66.1	67.4	67.2	64.9	62.0
€ exchange rate (€1 = new RON)	1.996	2.603	3.126	3.756	4.053	3.623

Source: Eurostat. GDP is gross domestic product. p provisional.

In general, the economies of both countries appear to be strengthening and macroeconomic stability is being maintained, with the major indicators moving in the right direction - GDP growing, inflation falling and employment rising. However, the European Commission has concerns that in certain areas of the economy efforts need to be strengthened. These concerns are similar for both countries and relate to the growing external debt, the need for the governments to persist with prudent fiscal policies, and moderation in public sector wage increases. Though both countries acceded to the EU on 1st January 2007, the Commission continues to monitor these areas.

Paths to Accession

The first important step on the road to EU accession for both countries was the signing in 1993 of the Europe Association Agreement[3]. This is the legal framework for bilateral relations between each country and the European Community. Following the decision of the European Council in Copenhagen (1993), Romania applied for EU membership in June 1995, with Bulgaria following in December of the same year. Considering the complexity of the preparation for membership, and

[3] It came into force in February 1995.

in order to help the candidate countries in this respect, a pre-accession strategy was defined at the end of 1994 at the Essen European Council. An enhancement of this strategy was stipulated in 1997 during the Luxembourg European Council, with a key instrument being the Accession Partnership with each candidate country. The Accession Partnership incorporated all forms of assistance within a single framework according to each country's priorities for membership preparation. Romania and Bulgaria endorsed the Accession Partnership in March 1998. In the same year, the European Commission produced the first annual progress reports for each of the countries, so that the European Council could make further decisions. The end of 1999 represented a crucial time for Romania and Bulgaria, who were invited (along with Lithuania, Latvia, Malta and Slovakia) to open negotiations for accession from 2000. The European Council in Copenhagen in 2002 established the year 2007 as a potential date of EU accession for Romania and Bulgaria. At the same time, the Commission proposed a 'roadmap' for each country, which covered the steps to be taken up to accession. On the basis of these events, and on the findings of the Commission's Regular Reports on the progress made by Romania and Bulgaria, the Accession Partnerships were renewed in December 1999, and further revised in November 2001. The negotiations were concluded by the end of December 2004 and the Treaties of Accession were signed in April 2005, welcoming Romania and Bulgaria as members of the EU from January 2007 (CEC, 2005c).

Besides the European Agreement and the Accession Partnership, the pre-accession strategy was based on EU financial assistance via three main programmes - Phare, SAPARD (Special Pre-Accession Programme for Agriculture and Rural Development) and ISPA (Pre-accession Instrument for Structural Policies) - and on the National Programme for the Adoption of the Aquis (NPAA). In 2006, financial assistance of €1,700 million (€545 million for Bulgaria and €1,155 million for Romania) was made available by the EU to support the two countries in their efforts to meet the various membership criteria (CEC, 2005c).

Bulgaria and Romania's progress towards accession was followed closely by the European Commission, which since 1998 had published its regular monitoring reports. There were political and economic criteria that had to be met, as well as the requirement for the candidate countries to adopt and implement the *acquis communautaire*, the legal framework of the EU. The *acquis communautaire* comprised 31 chapters, all of which had to be 'closed' before the date of accession.

Whilst both Bulgaria and Romania met the political criteria, the Commission identified a number of areas where improvements needed to be made, namely "… public administration reform, the functioning of the justice system, the prosecution of high-level corruption, the fight against trafficking in human beings, ill-treatment in custody, the mental healthcare system and the integration of the Roma minority" (CEC, 2005, p.4). Both countries also met the basic economic criterion of functioning as market economies. Indeed, as has been shown, their economic development continues to improve. There were also a large number of issues affecting agriculture that were of concern to the Commission, including the effective implementation of the Common Agricultural Policy (CAP). SAPARD was created specifically to support Bulgaria and Romania, and other applicant countries, to make structural changes to their agricultural and rural areas, and to help them comply with and implement the *acquis* concerning the CAP and related policies. The Commission continues to monitor all these areas, as further progress is necessary in order for the two countries to withstand the competitive pressures and market forces within the EU. It will report to the Council and Parliament to ensure that the *acquis* continues to be implemented. Special safeguard measures in the Treaty of Accession allow the Commission to take remedial action and impose financial sanctions (e.g., the suspension of regional aid) if necessary, for up to three years after accession.

With almost half of their populations living in rural areas, there is no doubt that the rural economy is of vital importance for both Bulgaria and Romania. As with the rest of the economy it has experienced radical transformation, with agriculture providing a social safety-net by absorbing labour made redundant from other sectors. Given this pivotal role, the remainder of the paper is devoted to examining, in more detail, agriculture and the rural economy in both countries.

Rural Areas

As a place in which to live and work, rural areas are far more important in Bulgaria and Romania than in the established member states of the EU. Indeed, enlargement has made the EU substantially more rural and agricultural. In this section an overview of the structure of rural areas in the two most recent member states is presented, using a number of socio-economic indicators to highlight their demographic, agricultural and economic nature. Comparison is made with the structure of rural areas in the 15 established member states (EU15) and the 10 member states that acceded to the EU in 2004 (NMS). This is followed by a more detailed look at agriculture and agricultural policy in Bulgaria and Romania.

The data in Table 5 show the importance of ‘predominantly rural areas’ in different parts of the EU and highlight some demographic indicators for these areas. ‘Predominantly rural areas’ are defined according to the OECD method, that is as having more than 50 per cent of the population in the given territory living in rural units with less than 150 inhabitants per km^2. Over three-quarters of Bulgaria and over 60 per cent of Romania is classified as predominantly rural. This is higher than for both the EU15 and NMS, where is it closer to a half. Population density in rural areas is much higher in the two new member states (and the NMS) than in the EU15. Consequently, a much larger proportion of the population in Bulgaria (58 per cent) and Romania (47 per cent) live in these areas; in the EU15 the share is 16 per cent (Table 5). An implication of this is that the political weight of rural areas is likely to be significantly greater in Bulgaria and Romania than in either the EU15 or the NMS. Although the proportion of the total population in rural areas differs significantly between Bulgaria, Romania, the EU15 and the NMS, the share of that proportion which is elderly (65 years of age or more) is quite similar (Table 5). It is not the case that the rural populations in Bulgaria and Romania show greater ageing.

Table 5: Demographic Indicators for Rural Areas, based on data 2002-2004

Indicator	Bulgaria	Romania	EU15	NMS
Territory (% of total)	77	62	57	51
Population density (inhabitants/km^2)	54	70	32	69
Population (% of total)	58	47	16	35
Population 65+ years (%)	16	15	18	13

Source: CEC, 2006 and authors' calculations.

Note: Not all member states are necessarily represented in the mean values for EU15 and NMS owing to missing data.

The share of GVA in rural areas accounted for by the primary sector, which is overwhelmingly agriculture, is about four times higher (18 – 20 per cent) in Bulgaria and Romania than in the EU15 (Table 6). Average farm sizes in the two new member countries are significantly smaller than elsewhere in the EU. Differences in farm structures reflect the socialist legacy. During the socialist era, Bulgaria and Romania were characterised by a farm structure of large co-operative and state farms (the 'collectivised sector'), supplemented by subsidiary household plots. The average size of the collectivised farms was typically between 2,000 and 3,000 hectares (ha), which far exceeds the size of the typical family farm in the EU15. At the other extreme, household plots during the socialist era were normally between 0.5 and 2 hectares in size and produced mainly for informal markets and self-consumption. Bulgaria and Romania now have very fragmented farm structures which are the outcome of radical decollectivisation and restitution of land to previous owners. Consequently, over 90 per cent of farms are less than 5 hectares in size, poorly capitalised and provide low returns to family labour (Table 6). The 2003 Bulgarian Agricultural Holdings Census estimated that from a total of 668,000 holdings, 77% were less than 1 ha in size (MAF, 2003). While such units would be discounted from most Western European agricultural censuses, in Bulgaria 0.5 ha of land, used for growing tomatoes, commonly provides the main source of income for rural households (Kopeva *et al.* 2003). While many predicted that such small farm units would disappear quite rapidly, structural change has been slow (GUS, 2001).

Table 6: Agricultural Indicators for Rural Areas, based on data 2002-2004

Indicator	Bulgaria	Romania	EU15	NMS
GVA in primary sector (%)	18	20	5	7
Economic farm size (ESU)	1.6	1.2	15.9	3.5
Farm size (ha)	4.2	3.2	20.2	8.1
Farms <5 ha in size (%)	97	93	47	68
Farms <2 ESU (%)	93	92	34	71

Source: CEC, 2006 and authors' calculations.

Note: Not all member states are necessarily represented in the mean values for EU15 and NMS10 owing to missing data.

In the rural areas of Bulgaria and Romania, GDP per capita is around one quarter of that in the EU15 (Table 7). Long term unemployment is significantly higher in Bulgaria, though similar to that recorded for the NMS. Bulgaria, Romania, the EU15 and NMS are all remarkably similar in terms of the share GVA in the secondary sector (manufacturing). However, there are significant differences in the importance of the tertiary (service) sector, which is less developed in Bulgaria and Romania. The latter in part reflects the differences in GDP and purchasing power.

Table 7: Economic indicators for rural areas, based on data 2002-4

Indicator	Bulgaria	Romania	EU15	NMS
GDP/capita (EU15 = 100)	28	24	100	44
Unemployment rate (%)	12.5	7.4	8.5	15.8
Long-term unemployment rate (%)	7.9	4.4	2.7	7.1
Self-employment (%)	14	25	18	20
GVA in secondary sector (%)	31	35	32	34
GVA in tertiary sector (%)	52	46	63	60

Source: CEC, 2006 and authors' calculations.

Note: Not all member states are necessarily represented in the mean values for EU15 and NMS owing to missing data.

In summary, the socio-economic indicators for rural areas in Bulgaria and Romania highlight the difficulties of structural change in the post-socialist years, which remains an on-going and serious challenge, as identified by the European Commission in its monitoring reports.

Agriculture

In the context of enlargement, agriculture was a crucial issue for Bulgaria, Romania and the EU as a whole, due not only to the importance of the sector for the new member states, but also because nearly half of the EU budget is allocated to agriculture (43 per cent or about **€**50 billion in 2005). Furthermore, the agricultural sector represented a major challenge to accession owing to EU commitments to the World Trade Organisation (WTO), the budgetary costs of extending the CAP, and the effect of higher food prices on consumers, particularly low income families. It is well known that historically the CAP has resulted in higher prices for agricultural commodities and food products than would occur under free market conditions. As farm price support is gradually reduced and replaced by direct payments to farmers, agricultural prices should fall, but the costs borne by EU taxpayers will increase. Although the Copenhagen Summit (2003) ruled out the granting of full direct payments to the new member states and adopted a graduated approach (25 per cent of the EU level in the first year of accession, 30 per cent in the second year, etc.), the CAP nevertheless will have a significant impact on farmers' incomes, the agricultural sector and the overall economy in these countries. It was for these reasons that agriculture was one of the most debated 'chapters' during the EU accession negotiations.

With about 15 million hectares of agricultural land, representing 62 per cent of its total area, Romania is the second largest agricultural producer among the Central and Eastern European countries (after Poland) and the sixth within the EU27. Although Bulgaria is half the size of Romania, over 50 per cent of its territory is agricultural land (CEC, 2002). Together the two countries account for 11 per cent of the Utilised Agricultural Area (UAA) of the EU27. Over the period 2000-2004, Romania and Bulgaria's agricultural output accounted for about 4 per cent of the EU25 level, of which about 80 per cent can be attributed to Romania. Prior to 1990 agriculture was considered the poor relation of the economy, with the communist regime focusing on industrialisation, but transition to a market economy has enhanced the role played by the agricultural sector. Its contribution to total GDP, particularly in the first decade of transition, was significant. Between 2000 and 2006 agriculture's contribution to GVA averaged over 12 per cent in Romania and 11 per cent in Bulgaria (see Table 3).

Rather perversely, the share of agriculture in total employment in Romania and Bulgaria increased after political and market liberalisation in 1989. This is because agriculture absorbed redundant labour from elsewhere in the economy, as other sectors declined more rapidly (Firici, 2003). As in a number of CEE countries, agriculture has provided a social safety-net or buffer in rural areas against increasing unemployment (CEC, 1998, Trzeciak-Duval, 1999, Pouliquen, 2001). Hence, in 2000 the agricultural sector[4] in Romania accounted for 43 per cent of the country's total employment,

[4] It includes agriculture, hunting, forestry and fishing.

compared with only 4.3 per cent in the EU15 (CEC, 2002), although by 2004 the share had fallen to 32 per cent (Table 8). Despite this decline, the number of people employed in agriculture in Romania is still very high, representing more than half of the 6.7 million employed in agriculture in the EU15. In Bulgaria the share of the agricultural labour force in total employment has stabilised in recent years at around 10 per cent.

Table 8 Share of Agricultural Labour Force[a] in Total Employment, 2000-2004

(%)

	2000	2001	2002	2003	2004
Bulgaria	10.6	9.4	9.6	10.1	9.7
Romania	42.8	42.3	36.4	35.7	31.6 [b]

Source: (2005a); CEC (2005b). [a] agriculture, hunting, forestry and fishing.
[b] provisional.

The output from agriculture in the two new member states, in terms of its importance relative to the EU25, is shown in Table 9. The dominance of Romania is clear. Cereals and oilseeds are of major importance in both countries, but otherwise the value of the various constituents of agricultural output in Bulgaria seldom exceeds 1 per cent of the comparable figure for the EU25.

Table 9: Volume of Agricultural Production, 2005

	% of EU25	
	Bulgaria	Romania
Cereals	2.2	7.4
Sugarbeet	0.0	0.6
Cattle	0.7	3.3
Pigs	0.6	4.4
Oilseeds	4.8	8.9
Potatoes	0.7	6.5
Fruit & vegetables	1.0	6.1

Source: Eurostat.

Agricultural Policy

During the 1990s, Bulgaria and Romania were characterised by significantly lower levels of real protection to farmers compared to the EU (OECD, 2001). At the same time, agricultural production, particularly in the livestock sector, fell significantly due to the collapse of the COMECON market, unfavourable terms of trade, declining consumer purchasing power and instabilities induced by privatisation in food supply chains (Swinnen and Rozelle, 2006). More recently, government intervention in the agricultural sector has been geared towards EU accession and adoption of the CAP.

A measure of the level of government support to agriculture is given by the Nominal Assistance Coefficient (NAC). This is a measure of producer support expressed in relation to gross farm receipts valued at world (undistorted) prices; a value of >1 indicates positive support, a value of 1 indicates no support and a value of <1 indicates negative support, i.e. taxation. NACs are calculated for selected commodities for Bulgaria and Romania by Davidova *et al.* (2006a and 2006b). The general picture to emerge is that livestock products receive positive support, whilst crop products, except for sugar, are more likely to be taxed (Table 10). For both countries, sugar received the highest level of support in 2004. In Bulgaria, this was followed by poultry, milk and beef, and in Romania by pork, eggs and poultry. In Romania, wheat also benefited from a high level of support. On a commodity basis, only pork in Romania, and eggs in both countries, received higher levels of support than in the EU15, in 2004. Overall, the level of support across all commodities in that year averaged 18 per cent in Bulgaria and 16 per cent in Romania. The corresponding figure for the EU15 was 49 per cent. Following accession, government intervention in Bulgarian and Romanian agriculture has to harmonise with the CAP, and as direct payments replace market price measures the support of agricultural *production* across the whole EU should diminish.

Table 10 Producer NACs for Selected Commodities, 2004

Commodity	Bulgaria	Romania	EU15
Wheat	1.25	1.54	1.72
Maize	1.19	1.06	1.85
Other Grains	0.94	0.93	2.04
Barley	0.88	0.88	1.94
Oats	..	1.16	3.03
Oilseeds	..	0.69	1.54
Sunflower	..	0.64	1.62
Rapeseed	..	0.70	1.51
Soyabean	..	1.08	1.64
Sugar	2.35	2.14	3.08
Potatoes	..	1.01	..
Milk	1.43	1.20	1.50
Beef	1.41	0.99	3.17
Pork	1.15	1.55	1.32
Poultry	1.63	1.22	1.79
Eggs	1.07	1.35	1.00
Total	1.18	1.16	1.49

Source: Davidova *et al.* 2006a and 2006b; and OECD. .. not available.

Farming in Western Europe is predominantly a family business, as has been reflected and reinforced by EU agricultural policy (Gasson and Errington, 1993; Christiaensen and Swinnen, 1994).[5] Both the Agenda 2000 reforms and the Mid Term Review of the CAP sought to safeguard family farms, and medium sized family farms have been perceived as integral to the 'European model of agriculture' (Cardwell, 2004). However, as a result of their socialist legacy, Bulgaria and Romania, as well as other CEE countries, have been characterised by historical absence of such 'medium sized family farms' and have a more diverse set of actors engaged in agriculture and farm sizes than is present in most established member states of the EU.

The structure of farming in Bulgaria and Romania, as well as other CEE countries, has generated several difficulties in relation to adoption of the CAP. Implementation of the CAP required these countries to have comprehensive systems for paying direct payments, an instrument of agricultural policy which had not been used during the socialist and immediate post-socialist era, and a complete land register on which to make payments. While the latter is taken for granted in Western Europe, the upheavals of the 1990s and often cumbersome land reform left many NMS with woefully inadequate systems. Direct payments under the CAP were first introduced as temporary

[5] This section draws on Hubbard, Gorton and Hubbard (2007).

measures for compensating farmers in the EU15 for price cuts, but have since become an established support mechanism, which seeks to play "a central role in ensuring a fair standard of living and stability of income for the agricultural community" (CEC, 2002: p.7). It is questionable whether this assistance, which is based on a family farming model of agriculture, will deliver such welfare benefits to Bulgaria and Romania. Those that lack a 'fair standard of living' in the rural areas of these countries are characterized by being either landless or restricted to small plots. The latter groups will benefit least from the introduction of direct payments, typically being ineligible for the receipt of such funds. The main gainers will be large, corporate farms and it is unclear whether transfers to such institutions will trickle down to the small-scale land owners (Latruffe and Davidova, 2006).

Recognising the difficulties of administrating the CAP, acceding countries were offered the option to implement a simplified system of direct payments, known as the Single Area Payment Scheme (SAPS). Under the SAPS, farmers in the NMS receive a flat-rate, per-hectare payment irrespective of what is produced as long as their land is maintained in good agricultural condition. The level of payment is based on the total amount of direct payment funds available for a given country in a particular year divided by the total agricultural area. Bulgaria and Romania, and most of the NMS from CEE, opted for the simpler SAPS. In the first years of accession, direct payments are being phased in from a base of 25% of the level in the EU15, rising in increments of 5% per annum. In addition, the NMS are permitted to top-up CAP payments with national funds, up to a maximum of 30% of the EU level (i.e., in the first year 55% of the EU15 level). This mechanism will allow the NMS to reach full parity with the EU15 by 2010 rather than 2013, albeit with the use of national funds. Bulgaria and Romania have opted to pay national top-ups to farmers, as have all the other new members from the 2004 enlargement.

Given the wider spread of farm sizes, Bulgaria and Romania were confronted with the possibility of implementing a complex set of CAP measures leading to the payment of relatively small sums to a mass of small-scale farmers, with some large corporate farms receiving very large and highly visible transfers. As part of the SAPS regulations, the minimum size of a parcel of land that can be considered eligible for a direct payment is 0.3 hectare. Nevertheless, NMS could choose a higher threshold, up to a limit of 1 hectare. Bulgaria and Romania, along with most of the other NMS, have chosen 1 hectare as the minimum eligible size. Below 1 hectare, payments were likely to be less than €50 per farmer per year and the administrative burden was deemed too great. However, as has already been pointed out, whilst they would be treated as non-economic in many countries of the EU, plots of even 0.5 hectare can provide the main source of income for households in remote rural villages in Bulgaria and Romania (Kopeva *et al*., 2003; Petrovici and Gorton, 2005; Hubbard and Thomson, 2007). About half of Romania's 4.1 million 'household farms' operate on less than 1 hectare, and these are not eligible for EU direct aid. It appears that the landless poor and those restricted to small-scale plots will benefit least from the introduction of CAP direct payments.

Conclusions

After a difficult period of transition, the economies of Bulgaria and Romania have recovered well. The GDP per capita has grown and, whilst still only one third of the EU-25 average, both countries are classified by the World Bank as 'upper middle income'. Unemployment and inflation have been falling and the level of public debt is lower than in many western European countries. The importance of the EU market to both countries is reflected in the level of their exports to, and imports from, other member states. Nevertheless, whilst the economies of Bulgaria and Romania have strengthened, and the political criteria for EU membership have been met, the European Commission continues to monitor certain areas where further improvements are deemed necessary.

As with their economies in general, Bulgaria and Romania have experienced a radical transformation in their agriculture and rural economies. Half of the population in each country lives in rural areas. Early in the transition period agricultural employment actually rose, as the sector absorbed labour made redundant from other parts of the economy. More recently, agricultural employment levels have fallen, in line with development of the economy. Unsurprisingly, agriculture was one of the most debated chapters in the accession negotiations, and adoption of the CAP will have a significant impact on farmers and those that live in rural areas. The majority of farms in Bulgaria and Romania are very small in size and would not be considered as commercial units in most western European countries. Nevertheless, they continue to provide the main source of income for many rural households. Whilst such small farms might be expected to disappear as a consequence of economic growth, to date this process of structural change has been slow. This is likely to pose one of the main challenges for the future. Recent enlargements of the EU have made it substantially more rural and this needs to be reflected in policy agendas.

In the years leading up to EU accession, agricultural policy in both Bulgaria and Romania was geared to emulating the CAP. However, the CAP itself is subject to on-going reform, as direct payments, unlinked to production, continue to replace market-based price supports. Such changes are likely to cause the level of agricultural production across the EU to reduce, although it is possible that in Bulgaria and Romania production levels will rise as a consequence of greater agricultural specialisation within an enlarged EU. More importantly, with the majority of rural inhabitants in the two newest member states being either landless or owning only very small plots of land, it is unlikely that these vulnerable groups will benefit greatly from the CAP. Much has been achieved in Bulgaria and Romania over the past twenty years, including accession to the EU, but there remains still much to be done, especially in terms of the rural economy.

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