

## THE ROLE OF THE NEW LAND RELATIONS FOR THE DEVELOPMENT OF VEGETABLE PRODUCTION IN BULGARIA

Teodora STOEVA, Violeta DIRIMANOVA

Agricultural University-Plovdiv, 12 „Mendeleev” Str., Plovdiv, 4000, Bulgaria,  
Emails: teodorastoeva@gmail.com, violeta\_dirimanova@yahoo.com

*Corresponding author:* teodorastoeva@gmail.com

### **Abstract**

*The impact of the institutional changes on the land relations in Bulgaria over the last 30 years is in response to the number of processes and changes that have taken place before and after the accession of the country to the European Union. The Ownership and Use of Agricultural Land Act, logically, has undergone the most changes (more than 70 changes by 2020). This dynamic of the Ownership and Use of Agricultural Land Act reveals the existence of real issues in the socio-economic system of agriculture and the need to solve them. The existence of favourable soil and climatic conditions, long-standing traditions, rich practical experience, availability and development of new technological solutions and market-oriented innovations, use of modern varieties with improved biological potential, as well as the changes in the Land Act, clarifying the use of agricultural land, outline the future trends for the development of vegetable production in Bulgaria related to the harmonization of the institutional framework in compliance with the requirements of the EU – regulatory framework, strategies and programmes related to land market regulation. The purpose of this article is to analyse the changes in the new Agricultural Land Act, by assessing their impact on the status and dynamic of the vegetable sector, which is one of the most vulnerable sectors in the agricultural industry, as well as the complex processes of fragmentation of agricultural land in Bulgaria. The methodical framework of the study provides a summary overview of the main changes in the new Agricultural Land Act, as well as the degree of fragmentation of the land, which has a direct connection to the position of both parties in negotiation.*

**Key words:** land relations, vegetable production, tendencies.

### **INTRODUCTION**

In Central and Eastern European countries (CEE) land reform has always been a key element of the agricultural reform during the Transition. The aim of the changes is to create appropriate conditions for the establishment of market economy by means of decentralization of decision-making process and restoration of ownership rights of all former owners and their heirs. In most Central and Eastern European countries the choice of land reform design was unlimited. But the real process of land reform was limited by two factors - “‘historical’ or ‘social’ justice.” (Swinnen et al.) [8].

Although the countries of Central and Eastern Europe started their reforms at nearly the same point in time, the different application of the chosen design allowed the land reform to be completed at different times. The effect of land reform has led to fully restored agricultural property and a new agricultural

system with very small farms and large “monopoly” agricultural structures. The restitution of agricultural land in some CEE countries has resulted in very fragmented plots of smaller average size, in Bulgaria - 0.54 ha, in Hungary - 2.75 ha, in Romania - 2.28 ha (Dirimanova, 2018) [1].

The impact of the institutional changes on the land relations in Bulgaria over the last 30 years is in response to the number of processes and changes that have taken place before and after the accession of the country to the European Union. Some of these changes are historically determined by the way our society transformed in the 1990s (Yovchevska, 2016) [9].

The results of these changes are that Bulgaria is still in a period of dynamic institutional changes that are actively affecting the state of land relations. The Ownership and Use of Agricultural Land Act, logically, has undergone the most changes (more than 70 changes by 2020). This dynamic of the

Ownership and Use of Agricultural Land Act reveals the existence of real issues in the socio-economic system of agriculture and the need to solve them. In this regard, the latest changes and the adoption of new legislation are a responsible economic and political act that would provide better conditions for the development of agriculture, reduce the administrative costs of farmers and lead to an improvement of the socio-economic environment in the rural areas of the country.

## MATERIALS AND METHODS

The purpose of this article is to analyze the changes in the new Agricultural Land Act, by assessing their impact on the status and dynamic of the vegetable sector, which is one of the most vulnerable sectors in the agricultural industry, as well as the complex processes of fragmentation of agricultural land in Bulgaria. The methodical framework of the study provides a summary overview of the main changes in the new Agricultural Land Act, as well as the degree of fragmentation of the land, which has a direct connection to the position of both parties in negotiation (Yovchevska and Dirimanova, 2019)[11].

The Land Act sets out the rules relating to the administrative procedures for creation of land units, voluntary consolidation of agricultural land with change of the ownership right, registration of the relevant documents for the use of agricultural land for the purposes of support under Single Area Payment Schemes, etc. The administration of land relations and, in particular, of land use, sets out important boundary conditions for land markets and the institutional framework is a decisive factor (Yovchevska, Pl. et al., 2019) [10].

In 2019, the new Bulgarian Agricultural Land Act was published. The Act aims at codifying the matter in the field of ownership and use of agricultural land. It represents and further develops much of the existing legislative framework, while introducing some new situations imposed by the practice in view of the evolving public relations. Last but not least, the Act aims at eliminating some

discrepancies between the various regulations presently in force. The main changes brought by the new Act are:

(1) *Prohibition on changing the use of agricultural land after its acquisition*, this period shall start all over again after any change of ownership, except in the case of succession. The purpose of this prohibition is to protect agricultural land as a scarce resource and national asset; it is also provided that after the acquisition of ownership of agricultural land, the holders may not change its intended use during that period.

(2) *EU citizens will be able to acquire ownership of agricultural land in Bulgaria*, and the requirement for settlement in the country for at least five years before the purchase is also withdrawn. The new Act provides for restrictions on the acquisition of agricultural land by foreign individuals and legal entities, including those falling within the scope of the Act on the Economic and Financial Relations with Companies Registered in Jurisdictions with Preferential Tax Regime, Persons Related to Them and Their Beneficial Owners, as the explanatory notes to the Act state.

(3) *Maximum duration of contracts for rent and lease of agricultural land and this duration should not exceed ten years*, respectively 30 years, for land used for permanent crops. The requirement for a minimum 5-year period in respect of lease contracts has been retained. The aim is to achieve a better balance in the relations between owners and users of agricultural land by avoiding long-term commitments based on unprofitable contracts, including contracts entered into by co-owners with an insignificant share, which was a widespread negative practice. A requirement has been introduced for the rental contracts to be entered into by at least 25% of the co-owners, while the requirement for the lease contracts to be entered into by at least 50% of the co-owners has been retained.

One of the main changes concerns *young farmers and small-scale producers* and is related to the tenders for renting or leasing agricultural land from the state land fund. It

will be allowed for young farmers, up to 40 years of age, as well as for single-member limited liability companies established by them, to rent or lease land from the State land fund without auction or special tenders, and to do this at market prices. These tenders will be held in case there is a positive result from the surveys conducted by the Regional Directorates of Agriculture for an interest in participating in such a special tender. Similarly, in order to stimulate small-scale producers, it is provided that only applicants who, together with their affiliates, cultivate no more than 10,000 dca of agricultural land, regardless of the form of cultivation, type of ownership or their age, can participate in tenders for rent or lease of state land. The aim is to stimulate young people to stay in the countryside, to establish new farms or expand the existing ones. Land will also be offered without tender procedures to sole traders (ET) and single-member limited liability companies (EOOD) founded by farmers up to 40 years of age. The law also provides for a limit on the land, which will be given to young farmers without tender – up to 10 dca for production and cultivation of vegetable crops, up to 20 dca for perennial crops and up to 50 decars for annual arable crops. The period of renting or leasing land by young farmers for the purposes of growing vegetables and annual arable crops is up to 10 years, and for permanent crops – up to 30 years.

The Land Act sets out the rules relating to the administrative procedures for creation of land units, voluntary consolidation of agricultural land with change of the ownership right, registration of the relevant documents for the use of agricultural land for the purposes of support under Single Area Payment Schemes, etc. It will be made on the basis of a written agreement with notarized signatures of the landowners and a land consolidation plan approved by order of the Minister of Agriculture. The land consolidation plan may include construction of irrigation systems and soil erosion control installations. The plan will include agricultural land owned by the state or municipality and in this case the agreements

shall be signed by the minister of agriculture or by the mayors. After the Act enters into force, some other acts will be repealed, such as the Agricultural Lease Act, Agricultural Land Conservation Act and Agricultural Property Conservation Act.

## RESULTS AND DISCUSSIONS

By considering some of the main changes laid down in the new Agricultural Land Act, as well as by presenting some pressing issues in vegetable production, we would contribute to ‘illuminating’ the importance of improving the status of the Vegetable industry in Bulgaria (Stoeva, T., 2019) [7].

The existence of favourable soil and climatic conditions, long-standing traditions, rich practical experience, availability and development of new technological solutions and market-oriented innovations, use of modern varieties with improved biological potential, as well as the changes in the Land Act that clarify the use of agricultural land -all these outline the future trends for the development of vegetable production in Bulgaria related to the harmonization of the institutional framework in compliance with the requirements of the EU – regulatory framework, strategies and programmes related to land market regulation.

Vegetable production has always been a specific sector of agricultural production. It is characterized by possibility of growing a wide range of cultivated plant species, many of which are of important significance for the economic contribution of the plant production sub-sector not only to the agriculture, but also to the national economy.

The graph data (Fig. 1) show a sharp decreasing trend in the economic significance of the vegetable sector in Bulgaria. In 2013, the significance of vegetable production decreased more than 6 times compared to 2006. Direct payments will continue to maintain this level of stagnation (Nikolov et al., 2014 [6].

Given the current development of agricultural industry, the notable significance of vegetable production has not been realized so far.

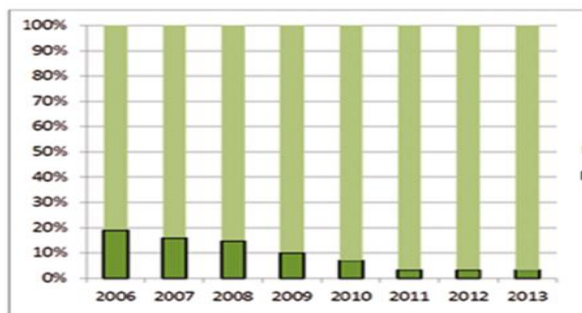


Fig.1. Share of an OP from sector Vegetables compared to an OP from sector Agriculture

Source: Yovchevska, Pl. ‘Significance of vulnerable sectors for Bulgarian agriculture’, page 19 B: “Analysis of the sectors with coupled support”, S. Ministry of Agriculture, Food and Forestry (MAFF) 2015 [9].

In recent years, there has been a steady tendency towards reduction of harvested areas and realization of average yields, which is far from the biological potential of the cultivated vegetable varieties. Often, the production harvested is of weak competitiveness in terms of the increasing quality demands of the national, regional and common European market. After the accession of Bulgaria to the EU-27, despite the overall positive impact that CAP 2007-2013 has on the agricultural business environment, some significant structural changes are registered at sub-sectoral and sectoral level. In terms of the Vegetable sector, the nature of this process is determined by the method of subsidizing under the Single Area Payment System. (Yovchevska, Pl., 2016) [9]. Area Payment needs to be changed and other factors in the farm should be taken into account in addition to the size of the land (Kaneva et al., 2018) [3]. The reasons for the serious drop in the production of vegetables and the relatively weak competitiveness of vegetable production observed after the accession of Bulgaria to the EU in 2007, are rooted in the failure of the land reform. As a result of this reform, small-scale farms which are ineffective due to the low degree of specialization, insufficient availability of agricultural equipment and modest level of production organization, dominate the structure of specialized vegetable outdoor farms. The availability of suitable soil and climatic conditions, the long-lasting traditions, rich practical experience, the existence and development of new

technological solutions and market-oriented innovations, the utilization of contemporary varieties of high biological potential - all these outline favorable trends for the development of vegetable production in the country. They reveal opportunities for broader integration of the sector in the economic life of rural areas, a striving to achieve highly efficient and competitive production. Being one of the new EU member states, Bulgaria will apply a simplified system for allocating direct payments to farmers by the end of 2020, known as the Single Area Payment Scheme (SAPS). (6) Compared to the basic direct payment schemes applied in most of the other Member States of the European Union, the amount of basic income support for Bulgarian farmers under this system is linked, in a simpler form, to the area of land declared by each farmer. Bulgarian authorities dedicate 13% of the allocated funds for direct payments (the maximum eligible rate) for voluntary coupled support – i.e. payments are linked not only to the number of hectares cultivated, but also to specific products or processes, in this case beef and veal, fruit and vegetables, milk and dairy products, sheep and goat meat and protein crops. Bulgaria has also chosen to apply re-distributive payments that allow it to achieve a fairer distribution of support among farmers by reducing direct payments by 5% for amounts above 150,000 EUR per individual farm (excluding the first 30 declared hectares) (European commission: Bulgaria and CAP, 2016) [2]. Bulgaria also applies the small-scale farmers scheme - a simplified support system for small-scale beneficiaries, with maximum annual payments of 1,250 EUR per farmer. This scheme reduces the administrative burden on those farmers with the smallest land holdings, as well as their obligations in relation to *cross-compliance* (i.e. the obligation to meet certain environmental standards in order to receive their payments), and exempts them from the obligation to apply the greening rules (European commission: Bulgaria and CAP, 2016) [2]. In Bulgaria in recent years, extensive farming has been given a strong impetus at the

expense of the intensive farming, a process that is of a sustainable nature and has a clear causal link. The subsidies per unit area are the main reason for this - they have made it much more profitable to invest in crops which require much larger areas for sowing, but also

give much lower yields per decare. Coupled support for vegetables - 2017-2020, offers much more adequate subsidies per unit area to the vegetable producers - 1,121.50 BGN/decare (Yovchevska and Venev, V., 2019) [10].

Table 1. Harvested areas of main vegetable crops in Bulgaria, in total and in crops (in Ha)

<i>Years</i>	<i>Total vegetables</i>	<i>Tomatoes</i>	<i>Pepper</i>	<i>Cucumbers</i>	<i>Potatoes</i>	<i>Onions</i>	<i>Cabbage</i>
2013	14,440	3,242	4,035	592	12,765	1,225	1,903
2014	11,857	3,024	2,876	345	10,200	1,118	1,943
2015	18,067	2,686	3,681	309	11,017	1,074	1,871
2016	28,543	3,613	3,577	247	8,376	1,365	2,875
2017	19,232	4,376	3,257	282	12,806	2,080	1,692
2018	17,821	3,907	2,854	470	14,096	3,675	1,961

Source: Ministry of Agriculture, Food and Forestry, Agrostatics Directorate 2013-2018.

The total area planted with vegetables was about 2% of the utilized agricultural area, and the tendency - although at a minimum rate - was towards decreasing, for example in the beginning of the period the share of these areas was around 2.5%, while during the last years under review it fell below 2%. (National strategy, Ministry of Agriculture, Food and Forestry: 119-120) [5]. The total area of agricultural land planted with fresh vegetables in 2014 was 29,394 ha, and 15,101 ha were planted with potatoes, legumes and pulses. The tendency over the last 15 years has been towards a permanent reduction of areas planted with vegetables. The areas planted with fresh vegetables also decreased over the period 2000-2014, with an average annual reduction of -2,2%. However, it should be noted that for the period from 2013 to 2014 the planted areas increased with 8.9%, on average, per year - the increase during the second year having a larger share in relative terms [5]. According to the data provided by Agrostatics Department at the Ministry of Agriculture, Food and Forestry (MAFF), in 2016 there was a continuation of the trend, that had started the previous year, of a substantial increase of the areas planted with vegetable crops, which was greatly contributed by the coupled support schemes applied to the sector. According to the data provided by Agrostatics Department at the Ministry of Agriculture, Food and Forestry (MAFF), in 2016 the areas used for vegetable

production were over 60 thousand hectares, which was respectively 6% and 30% more than in 2015.

Bulgarian farmers strive to produce outputs which market realization will ensure the highest return on invested resources – land, capital and labor, and the best profit. A significant proportion of farms have as their primary task the reduction of the risk by means of product specialization, where the profitable production compensates for the unprofitable one in order to survive. According to some authors (Kirovski,P., 2015:25) the land planted with vegetables occupies about 2.2-2.3% of the utilized agricultural area in the country. The dynamics of the land planted with vegetables since 2006 shows a definite and pronounced downward trend. The drop in production volumes can be explained not only with the reduced planted areas, but also with the strong competition in the sector [4].

## CONCLUSIONS

The new Agricultural Land Act seeks to clarify the use of agricultural land by fixing a maximum duration of contracts, which shall be long enough to allow farmers to plan their future activity in vegetable farms and to protect the producers who have invested in this activity. Thus, the Act will restrict big corporations (foreign legal entities) from purchasing land and will allow young farmers

(up to 40 years) to participate in land-lease tenders of land from the State Land Fund. The Act allows for the consolidation of fragmented agricultural land under the so-called "contracts for use" /consolidation contracts/. Over recent years, the development of vegetable production in Bulgaria has been hampered by numerous disadvantages such as the strong sub-division and fragmentation of agricultural land; low mechanization of production; negative trend of reduction of planted areas; low labour productivity; deteriorated condition of irrigation equipment and infrastructure; low skilled workers; low production profitability. Efforts to support the development of vegetable production need to be consolidated, as in Bulgaria there are natural assets and a number of comparative advantages that would allow the production of products with unique taste qualities (Yovchevska, Pl. 2016:70) [9].

The existence of favourable soil and climatic conditions, the rich practical experience, the availability and development of new technological solutions and market-oriented innovations, as well as the changes in the Land Act that clarify the use of agricultural land, outline the future trends for the development of vegetable production in Bulgaria. Recent trends reveal lasting stagnation processes in vegetable production. The growth that has been registered after the implementation of coupled support is not sustainable yet. The subsequent growth of the areas and production after the sharp decline, upon the implementation of the EU CAP, still lacks the intensity to create a cardinal change, favorable for the vegetable production in Bulgaria.

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