



ENLARGEMENT, TRADE AND INVESTMENT

The Impact of Barriers
to Trade in Europe

Edited by
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6. The impact of technical barriers to trade on Bulgaria's exports to the EU and to the CEFTA countries

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6.1 INTRODUCTION

In compliance with the European Agreement all trade in industrial goods between Bulgaria and EU member states will be free of tariffs and quantitative restrictions (QRs) as of 1 January 2002. Practically the same trade regime exists between Bulgaria and CEFTA member states. However, will this free trade agreement bring about free movement of goods in reality? The EU experience shows that the removal of only tariff and quantitative barriers is not sufficient in itself to generate completely free movement of goods. The elimination of tariffs and QRs is important, but it is equally important to remove the so-called technical barriers to trade (TBTs) – constraints which arise from differences in standards and in conformity assessment systems.

During its pre-accession period, Bulgaria, which is an applicant for full EU membership, has made considerable efforts to adopt the EU *acquis communautaire*. Conditions are gradually being created for the country to join the European Single Market. During the lengthy accession process (the Bulgarian government has set 1 January 2007 as the target date for Bulgaria's EU accession), TBTs will continue to play a negative role in the development of mutual trade. The adoption of EU standards provides EU goods with easier access to Bulgaria's domestic market. The main problem now is minimizing the financial difficulties Bulgarian exporters face in overcoming TBTs during the accession process.

This chapter first analyses the changes that have taken place in Bulgaria's legislation and institutions in order to meet the necessary requirements for Bulgarian goods to gain easier access to the EU market. The study shows the impact of the different modes of access to the European Single Market on Bulgarian exporters and producers. A comparative analysis is then provided

of relevant statistical data and of the information provided by the survey of Bulgarian enterprises that has been carried out. We show that there are similarities in overcoming the problems associated with exporting to the EU and CEFTA. Finally, we present our conclusions and recommendations.

6.2 BULGARIA'S ADOPTION OF THE *ACQUIS COMMUNAUTAIRE* WITH REGARD TO THE EUROPEAN INTERNAL MARKET

In preparing for accession to the EU, Bulgarian authorities need to work in four main areas to facilitate access of industrial goods to the EU internal market:

- a. Bulgaria's legislation on standardization should be harmonized with EU legislation so that Bulgarian products conform to EU quality standards.
- b. A national institution should be established to provide accreditation to certification bodies in different industry sectors.
- c. Independent testing and certification bodies should comply with the accreditation requirements of both the national accreditation institution and the EU, so that Conformity Assessment Certificates will provide free access to the EU market.
- d. International documents (Protocols for European Conformity Assessment) between Bulgaria and the EU should be signed so that Bulgarian Notified Bodies' certificates are recognized in EU member states.

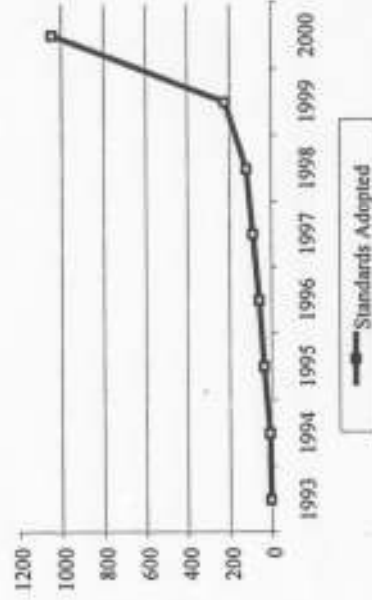
One of Bulgaria's main goals is to harmonize Bulgarian standards with European standards and introduce, through appropriate laws and regulatory norms, the minimum requirements for access to the EU market related to preservation of the life and health of people, animals, plants, the environment and consumer protection, etc. (Art. 30 of the Treaty of Establishing the European Community). By introducing European standards and the corresponding EC directives, the government has tried to reduce the technical barriers facing Bulgarian exports to the EU. The Bulgarian government's actions have also facilitated access of Bulgarian goods to the markets of CEFTA countries undergoing the EU harmonization process.

The most important step taken by Bulgaria's legislators was to adopt the *National Standardization Act (NSA)* of 18 September 1999, which according to Art. 5 changed the status of Bulgarian standards from obligatory to voluntary. The removal of the obligatory status of the Bulgarski Dargaven Standard (BDS), that is, the Bulgarian state standard, made it possible for Bulgarian producers to immediately adopt European standards before they were formally introduced as BDS. This drastically reduced barriers to

imports from the EU because it was no longer necessary for them to conform to the BDS.

The change in status of Bulgarian standards was a prerequisite for the adoption of a new approach (NA) in the policy of TBT removal. The new situation allows a more liberal approach in the BDS creation and application. In Bulgaria, this is overseen by the *Technical Committee on Standardization*. The government, producers and consumers have voluntary and equal representation on the committees. In early October 2000, about 82 such technical committees were active, covering almost the whole range of products made in Bulgaria.

The *Product Technical Requirements Act* of 1999 amended the *National Standardization Act*. The secondary legislation corresponding to the latest version of the *National Standardization Act* is gradually being written for the different industry sectors in compliance with EC new approach requirements. Concurrently, the harmonized European standards are actively being introduced as BDS. However, because of the huge volume of work, the majority of the BDS have not been harmonized. Therefore, Bulgarian producers who meet the BDS cannot obtain a Certificate of Conformity to EU standards even if there is an operating system of mutual recognition for the corresponding group of commodities. Harmonization of standards is delayed mainly because of an insufficient number of well-qualified translators and the lack of funding.



Source: The State Agency for Standardization and Metrology.

Figure 6.1 Dynamics of the number of EU standards adopted in Bulgaria

Nevertheless, the introduction of harmonized European standards has intensified. Figure 6.1 shows that the average increase in the number of harmonized European standards adopted in Bulgaria between 1995 and 2000

is equal to 114 per cent. When we extrapolate the same increase rate over the coming years, bearing in mind that the number of harmonized European standards to be adopted is about 10,000, it is evident that the process of standard harmonization in Bulgaria will be concluded as early as 2002–2003.

The year 2000 marked a substantial increase in the rate at which harmonized European standards were adopted in Bulgaria. This was primarily due to the practice of adopting European standards before having them translated into Bulgarian. Such a practice drastically speeds up the harmonization of Bulgarian standards with those of the EU. However, it places the burden on producers and consumers to translate the EU standards, which *de jure* had been adopted by Bulgaria's legislation but *de facto* existed only in an electronic database in a foreign language.

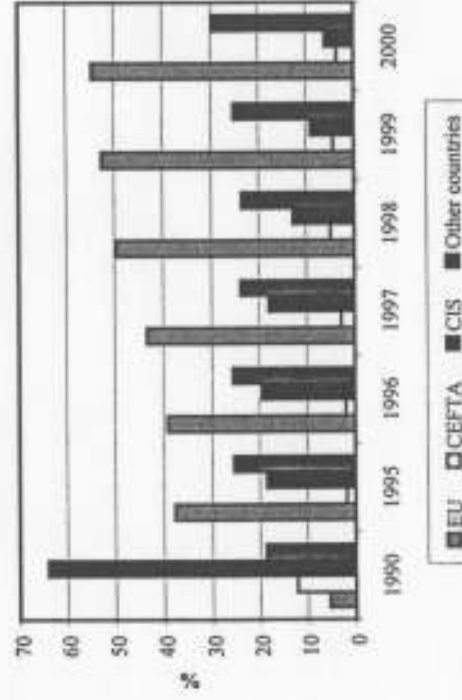
As previously indicated, the adoption of harmonized European standards does not in itself remove the technical barriers to Bulgarian exports of industrial goods to the EU. In addition to harmonizing standardization legislation, Bulgaria has created the necessary institutional mechanisms to establish the European system of voluntary product testing and certification. The State Committee of Standardization and Metrology was transformed into the State Agency of Standardization and Metrology. In February 2000, the National Accreditation Board was established as an autonomous institution within the Ministry of Economics to accredit certification bodies. The accreditation of independent testing and certification bodies (Notified Bodies) has already started, although the process is rather slow. It is expected that the first certification bodies will have been established by the middle of 2001.

However it is not necessary to notify such bodies in each industry sector. The establishment of notified bodies is only necessary in industry sectors with strong nationwide representation such as food processing, textiles, metallurgy, pharmaceuticals, fertilizer production, electric equipment, footwear, etc. In other industry sectors, Bulgarian producers can use the conformity assessment services of foreign notified bodies in the EU countries. Notified bodies have to demonstrate the necessary level of independence, impartiality and integrity. The competence of such bodies must be subject to surveillance and regular monitoring. They must employ personnel with sufficient and relevant knowledge and experience, which may be difficult in the Bulgarian context.

The Bulgarian legislature is lagging behind in adopting the NA directives. However, it is expected that all directives will be adopted by late 2001. This will allow for a sufficient number of independent testing and certification bodies to be accredited so that it is possible (and necessary) for Bulgaria to sign the respective protocol for mutual recognition of the Conformity Assessment Certificates in the relevant industry sectors.

6.3 THE IMPACT OF TECHNICAL BARRIERS TO TRADE ON BULGARIAN INDUSTRIAL EXPORTS TO THE EU

Over the past few years, there has been a gradual increase in the share of exports to the EU in Bulgaria's total exports. This growth is most impressive when seen against the background of 1990 (the very beginning of the transition period). Figure 6.2 shows that in 1990 approximately two-thirds of Bulgarian exports went to the former Soviet Union. This index of economic dependence on the former Soviet Union places Bulgaria well ahead of other former socialist countries. Despite this extremely unfavorable starting position, over the last 10 years Bulgaria has succeeded in adapting its exports to the current priorities of its economic policy.



Note: For 1990: EU (12); CIS = USSR; CEFTA = Poland, Czechoslovakia, Hungary, Romania.
Source: The Ministry of Economics of Bulgaria (data for the year 2000 are a projection).

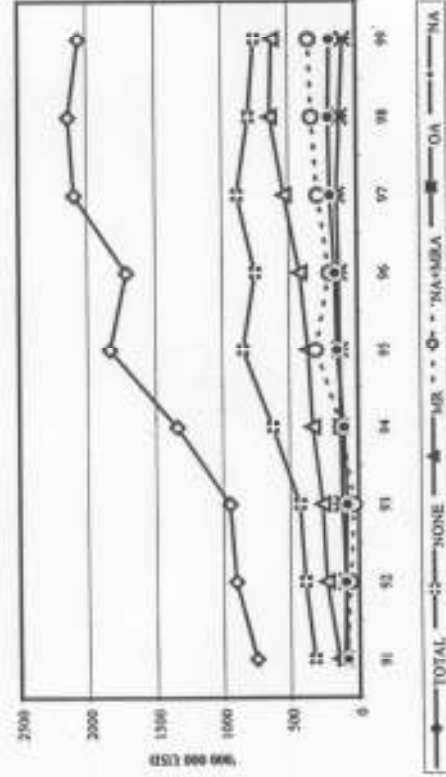
Figure 6.2 Geographic structure of Bulgarian exports, 1990-2000

This change is mainly the result of the removal of tariffs and quantitative restrictions on Bulgaria's industrial exports to the EU. However, as already mentioned, the removal of tariffs and quantitative restrictions does not mean that there is free access to the EU market. In order to assess to what extent the growth of Bulgarian exports to the EU, as a percentage of the country's total exports, has been affected by TBTs, we distinguish five groups of export commodities based upon their mode of access to the EU internal market and then identify export trends for each of these groups, as follows:

1. Goods that require no proof of conformity with any harmonized European standards (NONE).
2. Goods for which mutual recognition is applied in intra-EU trade (MR).
3. Goods for which the new approach is applied (NA).
4. Goods for which the new approach is applied, including when combined with an agreement on mutual recognition of conformity assessment (NA+MRA).
5. Goods for which the old approach is applied to gain access to the EU internal market (OA).

Figure 6.3 compares the export growth rate of these five groups during the period 1991–1999. The figure shows that Bulgarian exports to the EU that are not subject to TBTs (NONE & MR) have had the fastest growth rates during the period under investigation, with exports increasing more than two-fold. Furthermore, there is a high correlation between the dynamics of total export growth and the dynamics of the growth of exports without TBTs. This suggests that the recent decline in exports of these groups (NONE and MR) is due to the current domestic economic situation and is not related to the nature of access to the EU market. The data indicate that exports of Bulgarian goods to the EU that are in the NA+MR group have also shown a positive growth trend. However, it is clear that the export growth trend of goods in the OA and NA groups, which require proof of conformity with European standards, deviates considerably from the overall positive trend in Bulgarian exports to the EU.

The fastest growth in the share of Bulgarian exports to the EU has been of textile and clothing articles, footwear and leather goods, drawing cold rolling of steel, furniture and other goods made of wood, and non-hazardous basic chemical products, which either enjoyed access to the internal EU market free of technical requirements or may have had relatively easy access as a result of the application of the principle of mutual recognition. For example, the share of textile and clothing products in Bulgarian exports to the EU increased from around 15 per cent in 1990 to almost 30 per cent in 1999. During the period since 1990 there has been a decrease in the share of exports to the EU of goods such as machines and equipment, both electrical and non-electrical, pharmaceutical and cosmetic articles, organic chemical substances, cement and some other commodities whose access to the EU internal market is regulated by harmonized European standards, regardless of whether they fall within the sphere of the new approach or the old approach.



Source: Data obtained from Eurostat and the National Statistical Institute of Bulgaria.

Figure 6.3 The impact of the different types of access to the EU Single Market on the growth of Bulgarian exports to the EU

6.4 THE RESULTS OF THE QUESTIONNAIRE SURVEY OF BULGARIAN FIRMS

6.4.1 Technical Barriers to Trade and Access to the EU Market

The results of a questionnaire completed by 77 Bulgarian firms support the argument that Bulgarian exports to the EU are affected by the existence of TBTs. Some of the questions in this questionnaire are closely connected with this hypothesis, for example, 'Do you face any particular difficulties in selling products on the EU market compared with the domestic market?' Thirty-seven firms, or 48 per cent of the respondents, answered this question affirmatively. Figure 6.4 classifies the results when firms are differentiated by group according to the nature of access that their products have to the EU internal market.

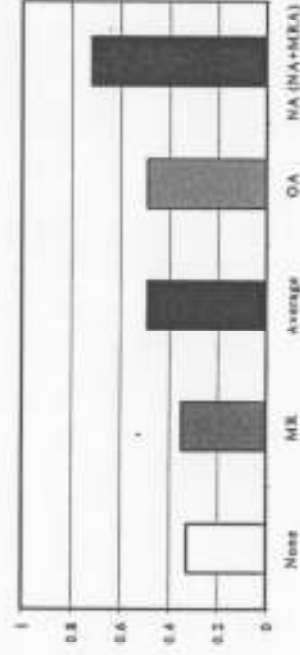


Figure 6.4 Share of firms facing particular difficulties in exporting to the EU

The figure clearly shows that firms that have to prove that their products conform to European standards are most likely to respond affirmatively to the question regarding the presence of additional difficulties in exporting to the EU. This response from the surveyed firms is substantiated by the replies to the question 'Was one of those difficulties that EU technical regulations differ from national requirements?' and the subsequent question 'If yes, was the barrier to your exports to the EU - major, moderate or minor?'. The results here are even more categorical (see Figures 6.5 and 6.6).

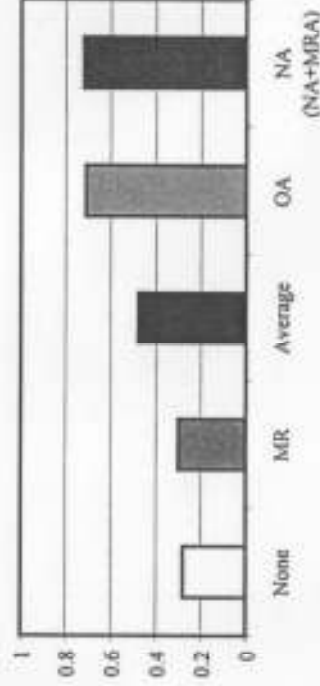
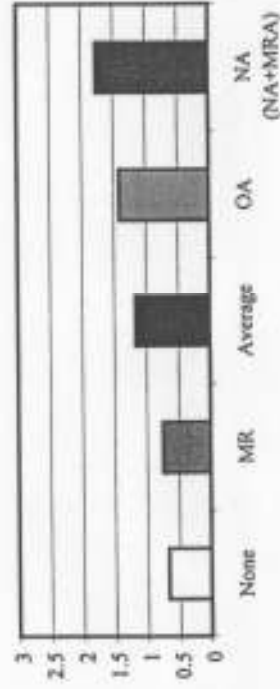


Figure 6.5 Share of firms for which the differences between EU technical regulations and national requirements are a specific barrier to exports



Notes: Results are calculated by translating the qualitative assessments into a quantitative measure by using the following grades: major barrier = 3 points, moderate barrier = 2 points, minor barrier = 1 point.

Figure 6.6 Assessment of the magnitude of difficulty in overcoming technical barriers to exports to the EU

The overall picture becomes clearer when using the answers to the following questions of the questionnaire: 'How does the need to obtain a different certificate to export to the EU affect your business? Have you had to redesign your products for sale in the EU to meet these requirements? What investment is involved?'. The responses to these questions are shown in Figures 6.7 and 6.8, which represent the share of firms responding in the affirmative as an average of all the respondents, and also broken down according to the nature of access to the internal EU market.

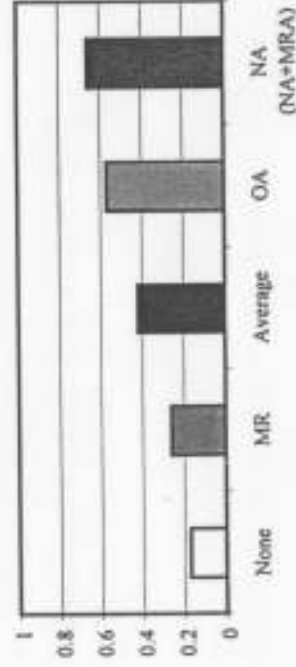
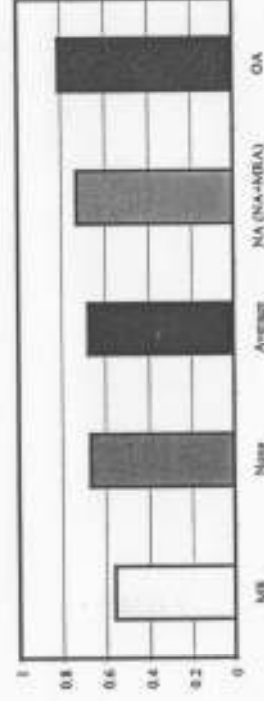


Figure 6.7 Share of firms that have had to redesign their products in order to meet EU technical requirements.



Note: Results are calculated by translating the qualitative assessments into the quantitative measure by using the following grades: major investment = 3 points, moderate investment = 2 points, minor investment = 1 point.

Figure 6.8 Assessment of investment needed to meet EU requirements

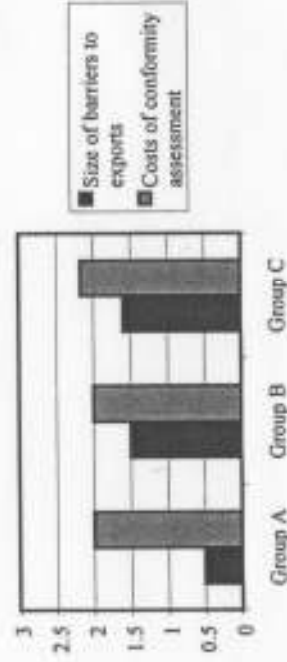
With regard to the quantitative assessment of technical barriers to trade, useful information comes from the answers to the question: 'Are direct costs to obtain a certificate of conformity in the EU substantial, moderate or small?' It appears that Bulgarian industrial firms must incur substantial direct costs to obtain a certificate of conformity with EU regulations. We applied a three-point grading system such that: substantial cost = 3 points, moderate cost = 2 points, small cost = 1 point.

The average level of difficulty in terms of the costs of obtaining a certificate of conformity was 2.06, which considerably exceeds the average level of difficulty arising from different standards and technical requirements of 1.17 (that is the average shown in Figure 6.6). The results of the survey indicate that the problems encountered by Bulgarian firms in accessing the EU market are mainly the result of certification procedures and difficulties in proving product conformity, rather than changes in product design or changes in specific technical characteristics of the products which have to be made to satisfy EU regulations.

We examined this hypothesis from another perspective by dividing the industrial sectors into labor-intensive and capital-intensive groups. For this purpose, surveyed firms were divided into three groups:

- Group A – firms in labor-intensive and relatively low capital-intensive sectors;
- Group B – firms in medium labor-intensive and medium capital-intensive sectors; and
- Group C – firms in low labor-intensive and relatively high capital-intensive sectors.

Figure 6.9 illustrates the results of the quantitative assessment of the responses to (1) the question regarding the size of barriers to exports and (2) the question concerning the costs of conformity assessment, according to the three categories of sectors. It.9 suggests that the higher labor-intensive and lower capital-intensive sectors (Group A) face more substantial problems in certification procedures than problems related to changes in the design and technical characteristics of products. On the other hand, sectors that are highly capital-intensive (Groups B and C) face problems with certification procedures that are similar in importance to problems requiring changes in the design and technical characteristics of products.



Notes: In Group A the following NACE (rev.1) sectors are included: 17.1; 17.2; 17.5; 17.7; 18.2; 19.3; 20.1; 20.2; 21.2; 35.1; 36.1 – a total of 28 of the firms surveyed. Group B includes the following sectors: 24.4; 24.5; 24.6; 25.1; 25.2; 26.5; 27.5; 28.2; 31.3; 31.4; 34.3; 35.5 – a total of 20 of the firms surveyed. Group C includes sectors: 24.1; 27.2; 27.4; 29.2; 29.4; 29.5; 31.1; 31.2; 31.5; 31.6; 32.1; 33.2 – a total of 29 firms.

Figure 6.9 Comparison of answers to questions on the size of barriers and the costs of conformity assessment according to the degree of labour-intensive or capital-intensive of sectors

Despite these differences, the analysis of the questionnaire responses supports the earlier finding, based on the available trade data regarding the dynamics of the commodity structure of Bulgarian exports to the EU, that the nature of access to the EU internal market has a considerable impact on the structure of Bulgarian exports of industrial goods to the EU. Exports of goods have been stimulated where no or minor technical barriers are encountered. At the same time exports of goods requiring obligatory compliance with European standards and technical requirements appear to have been hindered.

6.4.2 Technical Barriers to Trade and Bulgarian Exports of Industrial Goods to CEFTA

Bulgaria has been a member of CEFTA since 1 January 1999. However, even

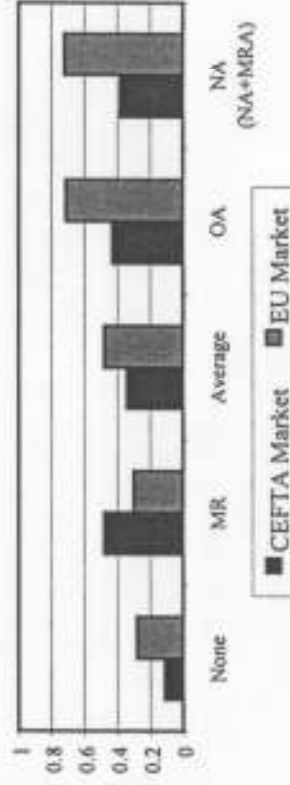
before this date it had signed a series of bilateral free trade agreements with the different CEFTA member states. Figure 6.2 indicates that despite ongoing mutual trade liberalization, exports to CEFTA countries still constitute less than 10 per cent of total Bulgarian exports. The reasons for this situation are complex, but one reason is likely to be the presence of different types of non-tariff trade barriers.

With regard to technical barriers to trade, the ideal situation for mutual trade between CEFTA member states will be when all standards and other obligatory technical requirements are harmonized with those of the EU and these countries have all adopted the principle of mutual recognition for trade amongst themselves. However, it is quite possible that the importance of TBTs for intra-CEFTA trade will increase rather than decrease because some countries will advance in the harmonization process at a faster pace, signing agreements with the EU on conformity assessment, while other countries, such as Bulgaria, will remain outside of the 'harmonized core'.

Thus, it is important to determine how Bulgarian industrial firms view current access to markets in CEFTA member countries and the difficulties they encounter in overcoming technical barriers. An indication can be found by analyzing our survey data. In fact, only 26 of the 77 respondent firms (34 per cent) answered affirmatively to the question, 'Do you have to satisfy different (from EU or national) technical requirements to export to CEFTA countries?' This is considerably lower than compared to those that answered affirmatively to the question regarding the presence of technical barriers to exports to EU, to which 49 firms (64 per cent) answered, 'Yes'.

Figure 6.10 illustrates the results when we differentiate answers to the question concerning access to CEFTA markets according to the nature of access to the EU market and compares the results with the responses to the question concerning access to the EU market (previously shown in Figure 6.5). The figure suggests that there is a degree of similarity in responses concerning technical barriers to exports to the EU and technical barriers to exports to CEFTA countries.

However, there is one substantial difference. In answers to the question on exports to the EU we can see a clear difference between commodities which do not have to conform to obligatory standards ('NONE' and 'MR') and those that have to conform to European standards ['NA (NA+MRA)' and 'OA']. Answers to the question on access to CEFTA markets do not show such clear-cut differences. This suggests that the barriers to Bulgarian exports to CEFTA member states are affected by obstacles related to adoption of European standards as well as obstacles related to national standards – the European and national legislation of these countries have a combined effect.



Note: Share of firms which had to redesign their products in order to satisfy technical regulations to export to CEFTA countries compared with the share of firms for which the differences between EU technical regulations and national requirements are a specific barrier to exports.

Figure 6.10 The importance of technical barriers to trade in CEFTA and EU markets

The survey responses clearly suggest that when it is necessary to redesign products in order to meet EU technical requirements, firms are able to use this redesign to enhance their export position in the CEFTA countries. A substantial proportion of 42 per cent of firms (32 respondents) indicated a need for product redesign in regard to exports to the EU, whilst 39 per cent of respondents (30 firms) agreed that such product redesign helped their sales in CEFTA markets.

These two questions are logically connected – an affirmative answer to the question of whether product redesign to satisfy EU requirements had helped sales in CEFTA must be preceded by an affirmative response to the question concerning product redesign for the EU market. Hence, we can conclude that 94 per cent of firms that had to redesign their products in order to sell in the EU have benefited from improved sales in CEFTA countries.

It is interesting that only 78 per cent of respondents who had to redesign their products in order to sell in the EU reported that this helped their sales on the Bulgarian market. The difference between those having improved their sales in the CEFTA countries and those that have improved their sales on the Bulgarian market is perhaps due to the fact that lower prices and not higher quality is the main dimension of competition on the Bulgarian market at present.

6.4.3 The Impact of FDI on Access to the EU Market

The questionnaire asked firms about the degree of foreign involvement (FI) in their enterprise. Accordingly, the 77 firms that answered the questionnaire

can be divided into four groups:

1. Firms with no foreign involvement. There are 41 firms, equivalent to 53.2 per cent of the companies completing the questionnaire, in this category.
2. Firms with little FI. There are 13 firms (16.4 per cent of the total) that have up to 33 per cent of foreign involvement.
3. Firms with substantial foreign involvement – eight firms (10.4 per cent of the respondents) with foreign involvement between 34 and 66 per cent.
4. Firms with dominating foreign involvement. This group includes 15 firms (19.5 per cent of the sample) where foreign involvement exceeds 67 per cent.

This breakdown of the firms that completed the questionnaire according to foreign involvement corresponds to the general situation regarding FDI in Bulgaria.

To determine the impact of foreign involvement on access to the EU we compare the answers given by firms in the above-mentioned groups with the average results of all surveyed firms to the following key questions in the survey:

- 'Do you face any particular difficulties in exporting to the EU market compared with the domestic market?'
- 'Would one of those difficulties be that EU technical regulations differ from national requirements?'

The results of this exercise, which are presented in Figure 6.11, suggest that a much smaller proportion of firms with foreign involvement faced particular difficulties in accessing the EU markets and in overcoming technical barriers to trade in that market.

6.4.4 Expectations Concerning Accession to the EU Single Market

The survey explicitly asked Bulgarian industrial firms about their expectations of the impact that harmonization of Bulgarian with EU technical rules will have. Here we assign replies of 'no benefits' with 0 points, of 'small benefits' with 1 point, of 'moderate benefits' with 2 points and of 'substantial benefits' with 3 points. The mean assessment of expected benefits from technical harmonization is quite high – 1.91 points out of a total of 3.

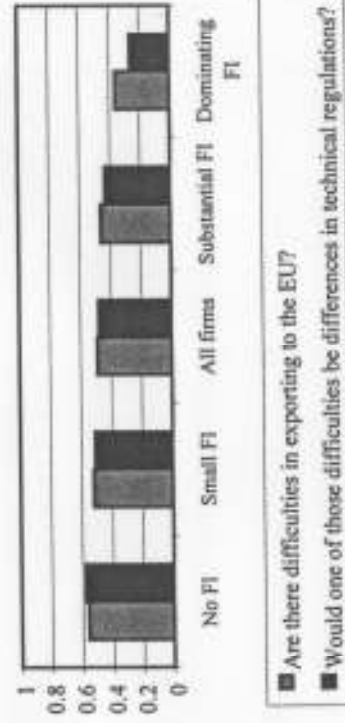


Figure 6.11 The importance of technical barriers to trade for exports to the EU and the degree of foreign involvement

Figure 6.12 illustrates expectations of the impact of technical harmonization according to the nature of access to the EU Single Market. Firms whose products are subject to harmonized technical requirements in the EU expect the greatest benefits from improved access to the EU market.

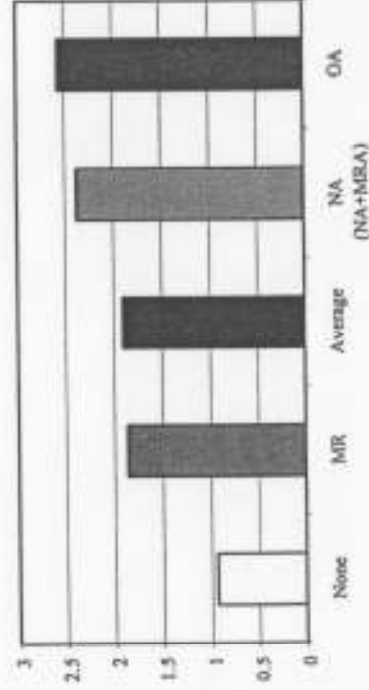


Figure 6.12 Expectations of the impact of technical harmonization with accession to EU

6.5 SUMMARY AND CONCLUSIONS

Following the reform of Bulgaria's standardization process and the system of proof of conformity with obligatory technical requirements for access to the

Bulgarian market, most of the TBTs that hinder EU exports of industrial goods to Bulgaria have already been eliminated. By conforming to European standards, EU goods have free access to Bulgaria without having to prove conformity with BDS. The focus now should be on facilitating the access of Bulgarian industrial goods to the European Single Market.

Bulgaria has taken important steps over the last few years to harmonize its legislation with the *acquis communautaire*. The number of BDS harmonized with European and world standards has rapidly increased. At the same time, however, the establishment of a network of independent testing and certification bodies has lagged behind. Without such a network, the mutual recognition of certificates of conformity with European standards and minimal obligatory technical requirements under the new approach cannot become effective.

Foreign trade statistics show that the share of exports to the EU in Bulgaria's total exports of goods has been expanding since the start of the transition process. With this positive trend in the background, it is apparent that Bulgaria has faced unfavorable changes in the commodity structure of its exports to the EU. The share of goods that require a low level of processing is on the rise, whilst the share of goods that require a high degree of processing is decreasing. One of the reasons for these unfavorable changes is the existence of TBTs, particularly on those exports of Bulgarian goods that need to be redesigned in order to conform to European standards.

Besides redesign, producers and exporters have difficulties with the procedures for proof of conformity with European standards. Our survey of 77 Bulgarian industrial firms representing 35 industry sectors suggests that capital-intensive sectors face particular problems with product redesign. Labor-intensive sectors rank first the difficulties (and costs) encountered in obtaining a certificate of conformity with European norms.

The survey shows that Bulgarian exporters to the EU can be divided into two large clear-cut groups. The first group includes firms that do not need to conform with any specific obligatory European standards and norms to export to the EU. TBTs do not represent a problem for this group (textiles, footwear, furniture, etc.) for exports to the EU. The second group includes exporters whose products have to conform to some specific obligatory European regulations and norms (machine building, electrical instruments, pharmaceutical products, etc.). TBTs are a considerable barrier to access to the European Single Market for these firms. However, standards should not be viewed only as an obstacle to trade. Many of the firms indicated that the redesign of their export products to conform to the requirements of the EU Single Market helped expand their sales both on the Bulgarian market and on the market of CEFTA countries.