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Bulgaria

Trade Policy Monitoring

EU-Bulgaria "Double Zero" Trade Agreement

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Report Highlights:

Bulgaria is currently finalizing a bilateral trade agreement for selected agricultural products traded with the European Union. Preliminary information on new tariff rates and quotas is provided in this report. This agreement is part of the EU's accession plan and provides for zero tariffs for some EU and Bulgarian agricultural products.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Bulgaria [BU], BU

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EU negotiations with Bulgaria on agricultural trade

Bulgaria began official negotiations on EU membership in March 2000. Since Bulgaria started its agricultural negotiations later than other applicant countries, the local government was pressed hard to meet the deadline for a bilateral "zero for zero" agricultural trade agreement effective July 1, 2000. According to officials involved in this process, the negotiations did not proceed smoothly due to negative local industry reaction and the EU's demand for high duty free import quotas under their "double zero" policy.

As a result, Bulgaria and the EU agreed on trade concessions and preferential treatment for certain products effective July 1. It is expected that the changes in the trade regime will be officially approved by the Bulgarian Council of Ministers and published by October with retroactive validity. Currently, the agricultural trade negotiations are focused on three major categories: sensitive commodities, non sensitive commodities and those which fall in between.

Sensitive Commodities

According to GOB officials, Bulgaria should benefit from the new "double zero" policy since companies will have the opportunity to export larger quantities of agricultural products. There is an implicit understanding that the EU's exports to Bulgaria may decrease due to cancellation of all export refunds. Therefore, the EU might not be able to use its quotas. The other GOB option was to refuse to sign the trade agreement which could have resulted in continuation or increase of export refunds and higher EU exports to Bulgaria. However, Bulgaria would have not received better access to the EU market. Despite the fact that EU producers continue to use production subsidies (which indirectly means export subsidies), the GOB is convinced that local trade can compete against non-subsidized EU exports. According to the Ag Minister, Bulgaria negotiated well and managed to reduce the "double zero" quotas demanded by the EU to a level equal to only 5 percent of respective products' local consumption.

Under the new agreement, Bulgaria accepts zero-bound duties under two types of tariff-rate quotas (TRQs):

- Annex 2-B
- Annex 3-B

Both types of TRQs follow in Table #1.

Table #1. Bulgaria: Quotas for Imports from the EU

| Bulgaria: Quotas for Imports from the EU | | |
|--|-----------------------------|-----------------------------|
| HS# Product | TRQ for CY 2000 in MT | Annual Increase in MT |
| 0203 Pigmeat, fresh, chilled or frozen 0210 11 Meat of swine, salted in brine, 0210 19 dried or smoked | 7,000 | 500 |
| 1601 00 Sausages and similar products 1602 41 Prepared or preserved meat of 1602 49 swine | 2,100 | 300 |
| 2002 Processed Tomatoes | 2,000 | 200 |
| 0808 10 Fresh Apples | 3,880 | 400 |
| 0207 Poultry Meat | 500 | 100 |
| 0207 excluding CN codes listed in Annex 1-B and MFN free | 1,000 | NA |
| 1602 32 Prepared or preserved meat of 1602 39 poultry | 1,000 | NA |
| 0406 Cheese and curds | 2,500 | NA |

Bulgaria is granted duty free export quotas to the EU conditional upon not applying export subsidies. The same type of TRQs are valid (Annex 2-A and Annex 3-A). These quotas are elaborated in Table #2.

Table #2. Bulgaria: Quotas for Exports to the EU

| Bulgarian quotas for exports to the EU | | |
|---|-----------------------------|-----------------------------|
| Product | TRQ for CY 2000 in MT | Annual Increase in MT |
| 0203 Pigmeat, fresh, chilled or frozen 0210 11 Meat of swine, salted in 0210 19 brine, dried or smoked 1601 00 Sausages and similar products 1602 41 Prepared or preserved meat of 1602 49 swine | 1,500 | 500 |
| 0406 Cheese and curd | 5,500 | 300 |
| 0702 00 00 Fresh Tomatoes | 6,250 | 100 |
| 2001 Prepared or preserved tomatoes | 16,500 | 200 |
| 0808 10 Fresh Apples | 1,125 | 400 |
| 0409 00 00 Natural Honey | 3,000 | NA |
| 0710 21 00 Frozen Vegetables 0712 22 00 0710 29 00 0710 80 51 0710 80 69 0710 80 85 0710 80 95 | 4,000 | NA |
| 0809 20 Cherries | 1,000 | NA |
| 0809 40 05 Plums | 9,375 | NA |
| 1602 32 Prepared or preserved meat of 1602 39 poultry | 1,000 | NA |
| 0104 10 30 Live sheep and goats 0104 10 80 ditto 0104 20 80 ditto 0204 Meat of sheep or goats | 7,000 | NA |
| ex 0207 excluding CN codes listed in Annex1-A and MFN free | 6,050 | NA |

Bulgarian Wine TRQ

Bulgaria has already been granted higher export quotas for wine (at the end of March 2000) under a bilateral EU trade agreement. The quota for CY2000 is 597,430 hectoliters of appellation wines with registered origin which is 83,500 hectoliters higher than in CY1999. This TRQ will be increased in CY2001 as table wines also will be included. Further gradual increases have been agreed for the period 2002-2004 to a maximum limit of 680,000 hectoliters. The use of this TRQ has been 100 percent in 1998 and 1999, or 530,830 hectoliters and 564,130 hectoliters, respectively. This includes both bottled and bulk wines.

Although the EU has preferential wine quotas for exports to Bulgaria, actual exports are minimal due to high prices. For example, wine imports from the EU were 4,832 hectoliters in 1999 compared to a quota of 68,800 hectoliters (1998 imports were only 386 hectoliters).

Bulgaria is currently negotiating on trade in spirits. At present, the GOB is ready to increase the free duty TRQ for vodka; to reduce import duties for EU origin whisky and to impose a 50 percent reduction in the basic duty for all other spirits.

Bulgarian sheep/lamb meat TRQ

In 1999, trade under this quota was 5,469 MT and it was used at almost 100 percent. Note: Other TRQs are not used for many reasons. The TRQ for fresh and processed fruits and vegetables is not used due to the lack of GOB processing standards, low quality and poor packaging, etc.

Regarding pork and poultry TRQs, the major reason for non-use is related to GOB veterinary and phyto sanitary restrictions. For example, Bulgaria currently has only 3 EU approved slaughter plants for carcass sheep/lamb and one meat processing facility which must use EU origin meat. Bulgaria can not export pork due to vaccination against classical swine fever (Pestis suum). Exports of broiler meat are impossible since the country does not have any EU approved slaughtering houses or processing plants due to the lack of required equipment. Some duck and goose products are traditionally exported to France and Belgium. Bulgaria has 6 approved slaughtering houses for duck and goose out of total 20 in the country. Dairy exports (only cheese) are limited to the number of EU approved dairy facilities - currently three, and two are in the process of seeking approval.

Non-sensitive commodities

There are 600 commodities which have already been approved for unlimited, zero duty imports from the EU. Reportedly, the list contains commodities which are traditionally not produced in Bulgaria such as citrus fruits and vegetables, and which had either zero or very low import duties before this agreement. Apparently, this list does not contain any product categories which might compete with US imports.

Minimum sensitive commodities

Negotiations with the EU are still in process. It is likely that the EU will change its initial request for a 50 percent reduction in basic import duties within the already agreed TRQs to an adoption of zero import duties for Bulgarian agricultural exports to the EU. Bulgaria hopes to achieve a 10 percent annual increase in TRQs; a 10 percent reduction in import duties on the agricultural components for quantities beyond TRQs; and a 10 percent reduction in import duties on commodities which have not been given any trade preferences so far. The EU is pushing hard for a decrease in import duties for EU-origin sugar products, chocolate, pasta, confectionary products and some other items within the limits of the existing tariff-rate quotas.

Industry View

Producers

According to a recent independent marketing study (Market Test Agency), about 70 percent of agricultural producers are willing to see a ban on agricultural imports. At the same time, 80 percent of farm producers approve of Bulgarian accession to the EU and 59 percent of them think they will benefit from EU membership. About 60 percent of Bulgarian producers consider their production to be "competitive" on the world/EU market. In general, the farming community is not aware of the agricultural negotiations and any eventual results of EU accession. The vast majority of producers have no knowledge or experience with EU trade. Most farmers form their attitudes based on local political news.

Processors

In May, the National Vet Service began massive inspections of dairy farms and processing plants to determine if they met the EU sanitary standards (issued in the form of GOB ordinances two years ago). As a result of these inspections, the Vet Service closed about 30 percent or 187 out of 596 dairies in the country for having completely inappropriate sanitary conditions. About 300 facilities were temporarily shut down until they have the required sanitary equipment. Industry representatives estimate that the total number of dairy facilities which will be liquidated by the end of CY2000 is roughly 250 or half of all local industry.

Additional inspections in the meat processing industry are expected to start by early July. Industry estimates are for at least 30 percent of all meat processors to be liquidated and another 50 percent temporarily closed. It is estimated that only 20 percent of the meat industry can meet the EU hygiene requirements.

Regarding the EU's "double zero policy", the Associations of Meat Processors, Pork, Poultry and Dairy Producers were against the introduction of any import quotas. Their major argument was that Bulgarian access to the EU market is actually non-existent due to

non-tariff restrictions in the form of veterinary and sanitary requirements.

However, there are some industry representatives who agree that gradual trade liberalization is better than a "shocking opening of borders." They say that introduction of EU standards for quality, veterinary and sanitary measures would force Bulgarian producers and processors to be more competitive and help to strengthen market discipline. Despite these arguments, however, large scale liquidation of important industries such as dairy and meat processing is already producing negative press not only with the industry, but in the general public due to the inevitable and unfortunate social impact. As a whole, the farming lobby remains weak and is unable to influence any high level political decisions.