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U.S. Exports to Bulgaria Ride Wave of Indirect Trade

Report Categories:
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Report Highlights:
According to the Global Trade Atlas (GTA), in 2018 Bulgaria imported U.S. food and agricultural products valued at $31 million. Conversely, GTA also reported that in 2018 the United States exported about $26 million of food and agricultural products to Bulgaria. Moreover, according to official EU Intrastat data, Bulgarian imports of U.S. food and agricultural products in 2018 were $69 million, considerably higher than either aforementioned data set.

This report attempts to provide USDA constituents with another snapshot of the U.S. food and agricultural market in Bulgaria. Post estimates that over 55 percent of U.S. food and agriculture products consumed in Bulgaria are either transshipped through third-country EU ports of entry and/or are re-exported via third-country EU distributors. As a result, the U.S. Census Bureau's (BICO) trade data and GTA data are not fully reliable indicators for fully assessing market opportunities in Bulgaria.

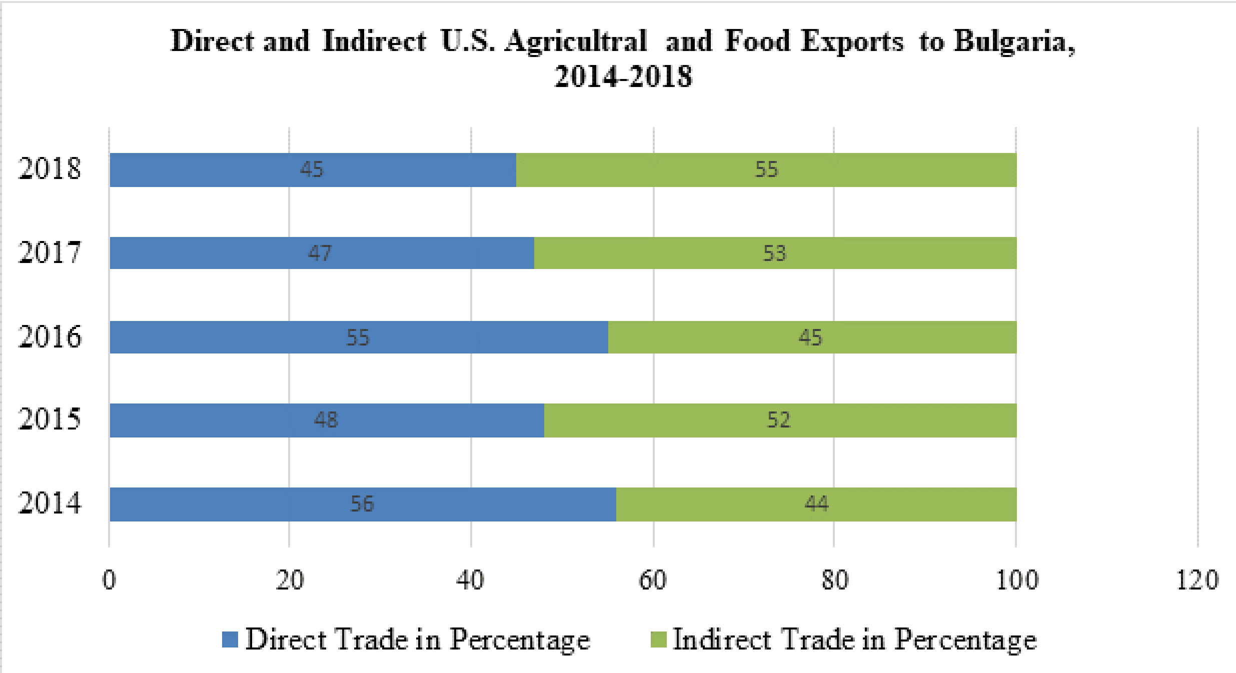
General Information:

Overview

Frequently used sources for obtaining trade data reveal significant inconsistencies vis-à-vis U.S. food and agricultural trade with Bulgaria. According to GTA, Bulgaria sourced $30.8 million of U.S. food and agricultural products in 2018. Also per GTA, the United States exported $25.5 million of food and agricultural products to Bulgaria during that same year, a figure identical to BICO data ($25.5 million). Post contends that Bulgarian imports in 2018 were significantly larger than the abovementioned data, due to indirect trade and/or transshipments and/or re-exports from other EU Member States. Post analysis suggests that since 2015, about half of U.S. food and agricultural products imported into Bulgaria entered into European commerce through Western European ports of entry. This pattern has strengthened in recent years and is likely to continue, given the current economic and business environment.

Official European data, including Eurostat and Intrastat (which captures data based on country of origin) reflects that Bulgarian imports of U.S. food and agricultural products in 2018 were $69 million. Assuming Intrastat data is accurate, GTA and BICO undervalue the Bulgarian market by $38 million. Because GTA and BICO assume ports of disembarkation are also the destination markets, these data skew U.S. exports to the EU toward countries with major ports (*e.g.* the Netherlands (Rotterdam), Germany (Hamburg) and Belgium (Antwerp). In absolute terms, 2018 indirect U.S. food and agriculture trade to Bulgaria increased by 10 percent, from $34 million in 2017 to $38 million in 2018. This is much above the growth in direct exports from the United States to Bulgaria (0.8 percent) (GTA/Eurostat data, Table 1).

Total U.S. agricultural, food, and related products exports in 2018 (direct and indirect shipments) grew by 5.9 percent over 2017. The amount of this trade is more than double than the GTA data and 270 percent more than BICO data. Table 1 shows examples of recent five-year data sets. When import data provided by the Intrastat source (Bulgarian National Statistical Institute/Ministry of Finance) is added to GTA and/or BICO data, total U.S. exports to Bulgaria increase considerably. The share of indirect shipments (transshipments and re-exports) shows consistent growth from 45 percent in 2016 to 55 percent in 2018.



Direct Versus Indirect Trade Patterns

Most U.S. bulk commodities (*e.g.* soybeans, soybean meal, some cereals/oilseeds, tobacco, wood, wool, cotton) are shipped directly from the United States to Bulgaria. Although bulk shipments help importers lower transportation costs, they can also overwhelm a relatively small market.

U.S. intermediate products are usually shipped to well-established, third-country European importers/distributors and are then re-exported in smaller volumes to Bulgaria. Such shipments benefit from infrastructure advantages (ports), storage or logistical advantages at points of entry (different market than Bulgaria), and long-established distribution networks. Many Bulgarian intermediate products importers benefit from this system, as it reduces logistical and storage costs and fits better with Bulgaria's market situation.

This pattern often involves exclusive contracts between U.S. shippers and third-country EU stakeholders. Some U.S. exporters do not wish to expose themselves to the risks associated with entering new, smaller, less-mature markets and prefer established Western European importers/distributors. These European stakeholders frequently can offer U.S. exporters higher volumes, and preferable payment and logistical terms, which are not viable for Bulgarian importers. At the same time, European distributors may incentivize Bulgarian importers with favorable terms of payments or delivery. In addition, local business culture appreciates face-to-face contact, which can be more difficult with U.S. exporters.

For U.S. specialty, high-value, and new-to-market products, Bulgarian importers tend to prefer smaller volumes of U.S. product from third-country Member State distributors. Sourcing from these supplies enables them to test consumer demand and/or to build distribution channels, and minimize risk. New entrants also make efforts to start with smaller shipments via Western European partners before switching to direct imports. The fragmented structure of the Bulgarian market, with its many small and/or medium-sized importers, also predetermines higher frequency of smaller shipments.

An important player in the market segment of higher-value products are the retail chains. Due to the dominating presence of German retailers, many U.S. retail products may be imported through these German supply chains and sold to the Bulgarian consumers. Some of the retail chain have distribution and/or storage hubs in Central or Western European countries from where U.S. origin products are shipped to Bulgaria.

EU import requirements such as import certificates and labeling play a role for an increase in the share of indirect trade. Often, U.S. exporters prefer to package and label products in several European languages in larger-scale handing facilities near Western European points of entry. According to trade sources, such facilities currently exist in Spain, Belgium. the Netherlands, Germany, Austria, and the United Kingdom. Some Bulgarian importers have pointed out burdensome food safety/veterinary inspection border procedures for select products that have complex EU import requirements (certificates) as a reason to prefer imports through larger ports. Reportedly, inspectors at Border Inspection Points in larger ports are usually best familiar with EU import requirements and tend to be "more business friendly". In addition, many Bulgarian importers prefer to collaborate with European importers/distributors since they do not have capacity and/or experience to deal with customs and border procedures. Finally, another side reason can be the different fees/charges upon imports in various Member States.

Post analysis shows that the most frequently used ports of entry for indirect shipments of U.S. agricultural and food products are the port of Rotterdam (the Netherlands), followed by Germany, Spain, Italy, the United Kingdom and Romania. In case of possible Brexit, most local importers plan to use indirect shipments via the Netherlands and Germany.

Trade Pattern in 2018

The data shows that some U.S. products arrived in Bulgaria only through indirect shipments, mainly transshipments (100 percent). Such products in 2018 were red meat (beef) and dairy products, followed by confectionary products, preparations of cereals, oilseeds and groundnuts where the share of transshipments is over 80 percent. Other products that see significant share of indirect trade are whiskies and other distilled spirits; nuts mixes, preserved and prepared nuts, pecans, sunflower and alfalfa planting seeds, fish, and starches and enzymes.

<u>U.S. beef</u> usually arrive in Bulgaria through distributors in Italy, the Netherlands, and Austria because of volume flexibility and licensing requirements. In 2018 all U.S. beef was imported indirectly (re-exports) through The Netherlands (82 percent) and Italy (18 percent). Although the value of U.S. beef exports to Bulgaria is not high, year-on-year sales over the past three years are notable. Post and USDA Cooperator marketing efforts are contributing factors in this growth.

<u>U.S. sunflower planting seeds</u> arrive to the market through Romania, Austria, and Italy and France. In 2018, this trade reached $18 million but only four percent of U.S. exports entered the market directly. Indirect imports (transshipments) via Austria accounted for 51 percent of shipments, followed by Romania with 40 percent. Vegetable and alfalfa seeds also see a high percentage of transshipments. Alfalfa seeds (100 percent indirect trade) were shipped via Italy (72 percent) and Austria (28 percent). U.S. vegetable seeds were imported to Bulgaria through The Netherlands (95 percent). According to

trade sources, select U.S. companies have seed handling facilities in Western Europe (Austria, France, and Italy) from where distribution (re-exports) to Central and Eastern Europe, including Bulgaria takes place.

U.S. tree and groundnuts are currently experiencing strong growth in Bulgaria. Although U.S. almonds, peanuts, and walnuts are shipped mainly directly, pecans, hazelnuts, and pistachios are often transshipped through other Member States. In-shell almonds entered the market by transshipments via Greece and Croatia, while most shelled almonds (77 percent) came directly from the United States with some indirect imports (transshipments) via Canada and Greece (nine percent each). For pistachios, the share of transshipments was 30 percent. U.S. pecans were imported only indirectly via the Netherlands, Greece and Croatia. Peanuts, on the other hands, were imported mainly directly, 87 percent, with the remaining coming via The Netherlands and Greece as well.

U.S. distilled spirits/whiskies arrived in 2018 from Spain (25 percent), the Netherlands (seven percent), Germany (five percent), and the United Kingdom (three percent). According to trade sources, some U.S. distilled spirits are exported in bulk to Spain, bottled there and re-exported in bottles to Bulgaria. Actual trade (direct and indirect U.S. exports to Bulgaria) reached $12 million in 2018 of which seven million were exported directly from the U.S. U.S. non-alcoholic beverages are exported mainly through indirect trade (via The Netherlands) which accounted for 61 percent of total exports to Bulgaria in 2018. U.S. wines come to the market through Italy and Belgium (48 percent), mainly via re-export shipments.

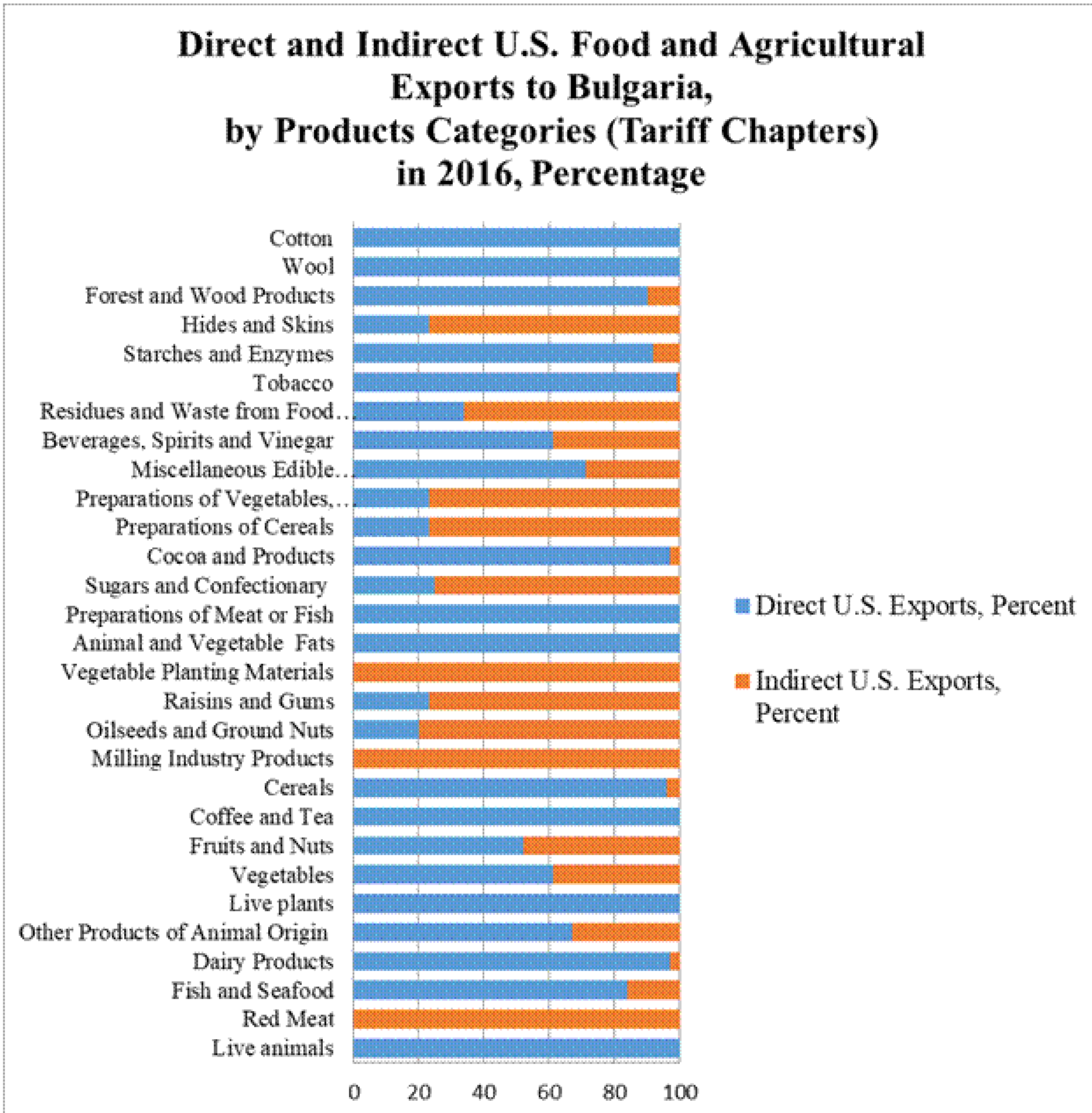

Direct and Indirect U.S. Food and Agricultural Exports to Bulgaria, by Products Categories (Tariff Chapters) in 2016, Percentage
Cotton
Wool
Forest and Wood Products
Hides and Skins
Starches and Enzymes
Tobacco
Residues and Waste from Food…
Beverages, Spirits and Vinegar
Miscellaneous Edible…
Preparations of Vegetables,…
Preparations of Cereals
Cocoa and Products
Sugars and Confectionary
Preparations of Meat or Fish
Animal and Vegetable Fats
Vegetable Planting Materials
Raisins and Gums
Oilseeds and Ground Nuts
Milling Industry Products
Cereals
Coffee and Tea
Fruits and Nuts
Vegetables
Live plants
Other Products of Animal Origin
Dairy Products
Fish and Seafood
Red Meat
Live animals
0
20
40
60
80
100
Direct U.S. Exports, Percent
Indirect U.S. Exports, Percent

Table 1. Direct vs. Indirect U.S. Imports in Bulgaria, 2014-2018

Direct vs. Indirect imports of U.S. agricultural, fishery and forestry products in 2014-2018, in U.S. Dollars						
Time Period	**Description**	**BICO***	**GTA/ Eurostat* (direct) Bulgarian Imports from the United States**	**Intrastat** (direct+ indirect), Total**	**Difference (indirect) (Column 5 minus Column 4)**	**Share of indirect in total (%)**
1	2	3	4	5	6	7
2018	Ag and Related Products (incl. Fishery and Forestry)	25,480,000	30,779,955	68,682,034	37,902,079	55%
2017	Ag and Related Products (incl. Fishery and Forestry)	24,133,000	30,508,059	64,818,805	34,310,746	53%
2016	Ag and Related Products (incl. Fishery and Forestry)	28,802,000	34,908,992	63,650,262	28,741,270	45%
2015	Ag and Related Products (incl. Fishery and Forestry)	24,395,000	27,380,384	57,022,234	29,641,850	52%
2014	Ag and Related Products (incl. Fishery and Forestry)	43,772,000	39,105,897	69,942,907	30,837,010	44%

**Eurostat - EU-28 import and export statistics. Direct trade only. (Source: Global Trade Atlas-GTA)*
***Intrastat – EU-28 import statistics based on country of origin customs data. Combined direct and indirect trade. (Source: Global Trade Atlas-GTA/Customs and Bulgarian Statistical Office-NSI).*
****BICO/GATS data for Agricultural and Related Products Exports (Source: U.S. Census Bureau*

Trade Data)
Note: Indirect data is the difference between Intrastat and GTA Bulgarian imports from the U.S. (direct) data.