BULGARIA

In 1997, the U.S. trade deficit with Bulgaria was $67 million, a shift of $78 million from the 1996 U.S. trade surplus of $11 million. U.S. merchandise exports to Bulgaria were $104 million in 1997, a decrease of $33 million (24 percent) from the level of U.S. exports to Bulgaria in 1996. Bulgaria was the United States' one hundred and eleventh largest export market in 1997. U.S. imports from Bulgaria were $172 million in 1997, an increase of $46 million (36 percent) from the level of imports in 1996.

Overview

Bulgaria's economic crisis deepened in early 1997, and the country experienced a brief hyperinflationary period. The economic crisis was intensified by a political crisis; both ended when a new government took office and reached agreement with the IMF and World Bank on an economic program featuring a currency board system of foreign exchange linking the Bulgarian lev to the deutsche mark. The macroeconomy stabilized immediately, interest rates fell dramatically, and inflation came down sharply. Inflation was 579 percent for the year, but nearly all of the increase was due to the first few months; consumer price increases in the last three months of the year were under 2 percent per month. GDP continued to decline, and fell by an estimated 7.4 percent for the year. Most experts predict moderate inflation and modest growth for 1998.

Along with the legislation needed to implement the currency board (which went into effect July 1) the government has committed to a program of structural reforms which will accelerate privatization of the enterprise and banking sectors, and make the country more attractive to foreign investors. Bulgaria has so far fulfilled all the criteria of the fifth IMF standby arrangement and has signed a FESAL agreement with the World Bank. Several large enterprises were privatized in 1997, and the government has hired international consultants to facilitate the sale of key enterprises. One of the six remaining state-owned banks was sold in 1997, and the remaining five have been offered for sale or are scheduled to be offered within the next year.

IMPORT POLICIES

The U.S.-Bulgaria Bilateral Trade Agreement, in place since 1991, provides mutual most-favored nation (MFN) status. Extension of MFN to Bulgaria by the United States remained subject to title IV of the Trade Act of 1974 (also known as Jackson-Vanik) until September 1996, when Bulgaria was removed from the purview of Jackson-Vanik and received unconditional MFN status.

Average Bulgarian import tariffs are relatively high, including in areas of key concern to U.S. exporters, such as agricultural goods and inputs and distilled spirits. In June 1996, Bulgaria imposed a temporary import surcharge of five percent for balance of payment purposes; this surcharge was reduced, then finally removed on January 1, 1998. The Foreign Investment Law of 1997 exempted capital contributions in kind from customs, removing a long-standing barrier to investment.

Bulgaria's Association Agreement with the EU phases out tariffs between Bulgaria and the EU while U.S. exporters still face duties. This has created a competitive disadvantage for some U.S. exporters (*e.g.*, soda ash exporters). The agreement provides improved reciprocal market access to certain farm products. On January

1, 1998, Bulgaria implemented the first round of its tariff concessions to the 6-country Central Europe Free Trade Agreement (CEFTA) and is expected to join the organization during the next year. Overall, Bulgaria has reduced its tariff rates by 2-3 percent for 1998.

Other reported barriers include customs regulations and policies that are at times cumbersome, arbitrary and inconsistent. Problems cited by U.S. multinational corporations include excessive documentation requirements, slow processing of shipments, and corruption.

Bulgaria became a member of the World Trade Organization in December 1996.

GOVERNMENT PROCUREMENT

Bulgaria adopted a Public Procurement Law in January 1997, in accordance with its commitment to accede to the Agreement on Government Procurement by December 31, 1997. Bulgaria is also an observer to the WTO Committee on Government Procurement. However, bidders still complain that tendering processes are frequently subject to irregularities, fueling speculation that corruption is present.

LACK OF INTELLECTUAL PROPERTY PROTECTION

The U.S.-Bulgaria Bilateral Trade and Intellectual Property Agreement of 1995 requires Bulgaria to enact and implement laws and regulations to protect adequately and effectively intellectual property, and to accede to major international IPR conventions. Adoption of patent and copyright laws has brought the Bulgarian IPR legal system up to international standards generally, but enforcement remains seriously deficient. The U.S. copyright industry estimates total 1997 losses of $207.7 million, up from $178.9 million in 1996.

In April 1995, in a government-to-government exchange of letters with the United States, Bulgaria agreed to strengthen copyright protection and enforcement. As a result, in 1995, Bulgaria acceded to the Rome and Geneva phonograms conventions, enacted changes to the Penal Code to make IPR infringements subject to criminal prosecution and imprisonment, and took action against some producers and distributors of pirated products. In April, 1996, Bulgaria also decreed, but has not fully implemented, a title verification system for audio and video recordings in April 1996. Compact disc and computer program piracy remains a serious concern due to the lack of enforcement of IPR laws and limited use of existing measures and remedies to curb this criminal activity. Bulgaria remains the largest source of CD and CD-ROM based piracy in Europe and is one of the world's leading exporters of pirated goods. Estimated losses for sound recordings and musical compositions in 1997 were $125 million with a rate of piracy of 90 percent.

The Government of Bulgaria adopted new licensing regulations in 1998 which holds some promise that the illegal CD and CD-ROM production could finally be curtailed. Success of the new decree, however, will depend entirely on the Bulgarian authorities strict enforcement of the new licensing regime including continuous monitoring of CD and CD-ROM production facilities.

Video piracy is also reported to be extensive in Bulgaria at a rate of 80 percent and estimated 1997 losses of $5 million. Bulgarian cable and television operators transmit a large percentage of films without authorization. In addition, Bulgaria's Radio and Television law requires that a predominant portion of annual programming consist of European-produced works.

Bulgaria was placed on the Special 301 Watch List after an out-of-cycle review in September 1996. Because of continued failure to take effective enforcement actions against piracy, Bulgaria was elevated to the Priority Watch List in January 1998. In the Special 301 announcement, the United States warned that without serious enforcement actions by the Bulgarian Government, it risked identification as a Priority Foreign Country as early as April 1998.

Other U.S. industries report that lack of effective enforcement of Bulgaria's intellectual property laws prevents their greater investment in Bulgaria. They also cite the illegal use of trademarks and trade dress (characteristic product appearance) as a barrier to the Bulgarian market. Bulgaria is currently working on a new trademark law.

INVESTMENT BARRIERS

On September 23, 1992 the United States and Bulgaria signed a Bilateral Investment Treaty, which was implemented on May 3, 1994. Overall U.S. investment in Bulgaria remains low compared to other countries in the region, although the United States is the fifth largest investor in Bulgaria. A lack of transparency in the privatization process has complicated investment procedures. Privatization deals and bid selections lack clear guidelines, and little notification on the status of privatization deals is given to bidders. This lack of information-sharing contributes to the perception of official corruption. Besides the tariff and intellectual property problems cited in the previous sections, U.S. industries also report that the lack of transparency of regulations, high (and unequally enforced) tax burden and government bureaucracy create significant barriers to investment. Some companies have also reported crime as a barrier to investment. A very broad and somewhat cumbersome 1995 concessions law, under which no concessions were actually granted until late 1997, has complicated investments in sectors such as mining, oil and gas exploration, pipelines, and telecommunications.