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In 1998, the U.S. trade deficit with Bulgaria was \$104 million, a decrease of \$36 million from the 1996 deficit. U.S. merchandise exports to Bulgaria were \$115 billion during 1998, an increase of \$11 million from the level of U.S. exports to Bulgaria in 1997. Bulgaria was the United States' 106th largest export market in 1998. U.S. imports from Bulgaria were \$219 billion in 1998, up almost 28 percent from 1997. The stock of U.S. foreign direct investment (FDI) in Bulgaria in 1997 was \$22 million, an increase of 22 percent from the level of U.S. FDI in 1996.

Bulgaria experienced a severe economic and political crisis in 1996 and early 1997. The crisis was triggered by a banking panic and culminated in a brief period of hyperinflation early in 1997. In April 1997, a New Union of Democratic Forces (UDF) government won pre-term parliamentary elections and rapidly reached agreement with the IMF and World Bank on a stabilization program. A currency board arrangement linking the Bulgarian lev to the German mark was introduced in July 1997. The program quickly succeeded in stabilizing the economy. The triple digit inflation of 1996 and early 1997 has given way to an official consumer price increase of 1 percent in 1998. Following declines in GDP in both 1996 and 1997, the economy grew by an estimated 4.5 percent in 1998. The government also succeeded in producing a balanced budget in 1998.

In September 1998, the IMF approved a three-year Extended Fund Facility (EFF) which provides credits worth about \$864 million in support of the government's economic reform program. The government is seeking equivalent financing from the world bank, the European Union, and other donors. The World Bank disbursed a Financial and Enterprise Sector Adjustment Loan (FESAL) of \$100 million in March 1998.

The government is committed to a broad program of structural reforms, including privatization of state-owned enterprises (SOES), and reforms of the social safety net and in the financial sector. Privatization proceeds in the first 11 months of 1998 amounted to USD 465 million, down from USD 572 million in 1997. The state plans to sell stakes in the monopoly telecommunications company (BTK), a large tobacco producer (Bulgartabak), the national airline (Balkan), and many other firms.

IMPORT POLICIES

The U.S.-Bulgaria bilateral trade agreement, in place since 1991, provides mutual Most-Favored-Nation (MFN) status. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded Unconditional MFN treatment by the United States in 1996.

In January 1999, average Bulgarian import tariffs were reduced significantly and a 5 percent import surcharge was eliminated ahead of schedule. However, tariffs in areas of concern to U.S. exporters - including agricultural goods and inputs and distilled spirits - are still relatively high. In December 1998, the Bulgarian Parliament revoked exemption from VAT and customs duties for capital contributions in kind valued at over \$100,000. In the past, some U.S. investors had reported that high import tariffs on products needed for the operation of their establishments in Bulgaria served as a significant barrier to investment.

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Bulgaria's Association Agreement with the European Union 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. For example, duty on soda ash from the EU will be phased out by 2002, while a 40 percent tariff on soda ash imports from the United States and other countries will be maintained. Lost U.S. soda ash exports could reach USD 5 to 25 million by 2002. The EU Association Agreement also improved reciprocal market access to certain farm products. In July 1998, Bulgaria joined the Central European Free Trade Area (CEFTA). Over the next three years, tariffs on 80 percent of industrial goods traded between CEFTA countries will be eliminated. In addition, a free trade agreement with Turkey took effect in January 1999.

Import licenses are required for a limited list of goods including arms, radioactive elements, rare and precious metals and stones, certain pharmaceutical products and pesticides. Bulgaria uses the single customs administrative document used by European Community members. Nonetheless, customs regulations and policies are sometimes reported to be cumbersome, arbitrary, and inconsistent. Problems cited by U.S. multinational corporations include excessive documentation requirements, slow processing of shipments and corruption.

As in other countries aspiring to membership in the European Union, Bulgaria's 1998 radio and television law requires a "predominant portion" of certain programming to be drawn from European-produced works and sets quotas for Bulgarian works within that predominant portion. However, this requirement will only apply "whenever practicable." The law also requires foreign television entities transmitting programs in Bulgaria to have a local subsidiary or agent, and prohibits broadcasters from entering into barter agreements with television program suppliers.

Bulgaria acceded to the World Trade Organization in December 1996.

GOVERNMENT PROCUREMENT

Bulgaria adopted a public procurement law in 1997 in accordance with its commitment to accede to the WTO agreement on government procurement. Bulgaria is also an observer to the WTO committee on government procurement. Under the law, bidders may appeal against violations of the applicable procedures. General government supervision of compliance with the procurement law is exercised by the national audit chamber. However, bidders still complain that tendering processes are frequently subject to irregularities, fueling speculation on corruption in government procurement.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Bulgarian intellectual property legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement. In January 1999, the Bulgarian Government approved amendments to the copyright law, aimed at harmonizing the legal regime with that of the European Union, as well as bills governing protection of trademarks and geographic designations, industrial designs and the topology of integrated circuits. These amendments have not yet been reviewed by parliament. A law for the protection of new types of plants and animal breeds was adopted in September 1996.

Until recently, Bulgaria was the largest source of CD and CD-ROM piracy in Europe and one of the world's leading exporters of pirated goods. For this reason, Bulgaria was placed on the Special 301 Priority Watch

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List in January 1998. In 1998, intellectual property rights enforcement improved considerably with the introduction of a CD production licensing system. All CD production facilities were initially closed down and those which received licenses are subject to 24-hour surveillance. Bulgaria's title verification decree was also amended to require CD manufacturers to present an agreement with the author or collecting society before starting production and to improve coordination between the ministry of culture and Bulgarian law enforcement authorities. In recognition of the Bulgarian Government's efforts in curbing piracy during 1998, Bulgaria was moved to the watch list in November 1998. Nonetheless, gaps in the title verification system, lack of prosecution of producers and distributors, and customs enforcement continue to be causes of concern. U.S. industries report that lack of effective judicial remedies for infringement of intellectual property rights as a barrier to their investment in Bulgaria. Companies cite illegal use of trademarks and trade dress as barriers to the Bulgarian market. Pharmaceuticals manufacturers report slow and ineffective enforcement of patent rights for their products.

While audiovisual piracy in Bulgaria is considerable, enforcement and the legal regime, including a new media law and amendments to the title verification decree described above, improved in 1998. While an estimated 80 percent of films transmitted on cable television and 40 percent of those broadcast by private television stations were unauthorized early in 1998, broadcast piracy dropped dramatically as enforcement activity increased later in the year. Sales of pirated videocassettes have declined in recent years, but still account for approximately 40 percent of the market, according to industry sources.

In December 1998, the Minister of State Administration signed an agreement with Microsoft which commits the Bulgarian Government to license all company products. In turn, Microsoft will reinvest a large portion of its royalties in training civil servants, teachers, and students and in technology transfer. The minister announced that similar contracts would be signed with other information technology firms in 1999.

INVESTMENT BARRIERS

In September 1992, the United States and Bulgaria signed a bilateral investment treaty which was implemented in 1994. The United States is the third-largest foreign investor in Bulgaria, and was the largest source of direct foreign investment during 1998.

Foreign investment in state-owned enterprises has been hampered by a number of factors, including non-transparent bidding requirements and procedures and preferences for management-employee buyouts for smaller firms. U.S. companies also report non-transparent regulations, a high and arbitrarily enforces tax burden, and crime as impediments to investment. The 1995 concessions law has been criticized for complicating investments in a range of sectors, including mining, oil and gas exploration, pipelines and telecommunications.

The Bulgarian Government has taken some steps to improve the investment climate, including enactment of a foreign investment law crafted with input from multinational companies and recent reductions in corporate profits and value-added taxes. The government aims to replace existing tax preferences for foreign investors with a new set of incentives which would be available to both domestic and foreign investors.

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