Foreign Agricultural Service

GAIN Report

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Bulgaria

Trade Policy Monitoring

Import tariffs on chicken increase to 75 percent

2003

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Report Highlights:

The Bulgarian government has increased import tariffs on marinated chicken leg quarters. Post estimates U.S. exports lost as a result will exceed $4.0 million annually.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Sofia [BU1], BU

Increased Import Tariffs

On June 10, the GOB approved a decree to increase import tariffs on marinated chicken and turkey products from current 40 percent to the WTO bound rate of 75 percent for chicken products and 55 percent for turkey products. An official U.S. government request for a grace period of 60 days for U.S. shipments en route was denied by the Bulgarian government. The decree was published on June 17 (Decree #127 of June 10, Official Gazette #55 of June 17) and will be effective 14 calendar days after its publication in the "Official Gazette" or July 1, 2003.

HS#	Old Duty in Percent	New Duty in Percent
HS#1602 31 Turkey	40%	55%
HS#1602 32 Chicken	40%	75%
HS#1602 39 Other poultry	40%	75%

Expected Results on Trade

Over the past 6 years, U.S. exports of poultry, and especially of (non-marinated) frozen chicken leg quarters, faced a very high duty of 74 percent (HS#020714).

- These high import duties put the U.S. industry in a highly disadvantaged position compared to chicken imports from the EU and CEFTA countries. The EU-origin chicken can be imported under a 2,000 MT duty free quota (1,000 MT under Chapter 2 and 1,000 MT under Chapter 16 from the Tariff Code). Similarly, CEFTA countries face much lower duty for these products, 28 percent for HS#020714; and15 percent for HS#1602 32.

- As a result of the current high import duty (74 percent) under Chapter 2, a "grey" market of imported chicken products from all origins has developed. Local poultry producers and GOB officials remain concerned about illegal trade, smuggling and poor Customs control. However, no official estimates or statements have been made about the reasons for the existence of this "grey"market, i.e. high duties and an inefficient local poultry industry. The most vocal party in favor of high tariffs is the local Association of Poultry Producers. This situation has forced many legitimate traders to think about alternative legal ways to import chicken products to the Bulgarian market.

- As a result of extensive negotiations between U.S. exporters and Bulgarian importers, in the mid-2002, several U.S. processors started to invest in new technology or the adjust their current production lines and to produce marinated chicken leg quarters. According to U.S. exporters, the cost of a single line investment is about $300,000. Reportedly, at least three U.S. companies are currently producing this product. Thus, the total amount of U.S. investment is close to $1.0 million. In addition, this new investment was related to opening of new jobs. The new marinated product is produced for the Bulgarian market only and, according to trade sources, can not be marketed in any other country in Central and Eastern Europe.

- Overall U.S. chicken exports to Bulgaria registered a significant growth after the new, marinated product was available for shipment starting in mid-2002. These exports registered a growth of 308 percent in January - March 2003 and reached about $1.0 million in value. According to trade sources, annual contracts are for imports of about 1,000 MT - 1,200 MT per month or annual sales between $4.0 million and $8.0 million for 2003.

The new GOB decision is likely to bring the following results:

- A likely result will be an increase in "grey" market trade to avoid the high tariffs;
- Many U.S. exporters will lose their annual contracts with local importers and suffer losses from mid-year cancellations. The financial pressure on local importers will increase.
- It is very likely that the number of distressed cargos at the Bulgarian border will increase. This will certainly lead to pressure on the Bulgarian veterinary service and Customs; and will lead to a number of problematic issues such as food safety; demurrages; extra storage cost for the state and customs warehouses, etc.

Expected Impact on the Local Market

High level GOB officials have announced this new policy in an apparent effort to protect local poultry producers. However, an increasing number of local industry representatives and experts are doubtful about a positive effect of this decision. Impact on the local market will include:

- A significant portion of the imported chicken trade will become illegal. Bulgarian Customs was able to collect the due tariffs under the old lower duty. However, with the new changes, the budget revenue from tariffs will likely decline;

- The "grey" market will bring food safety problems, as well as problems with illegal domestic trade (like sales without invoices, VAT and other taxes). This will increase "unfair" competition on the local market and will make marketing by legitimate local poultry producers even more difficult;

- Expected initial effect from the new duties, might be higher prices, which will, in turn stimulate imports (likely illegal), and lead to an eventual decline in prices due to greater supply. Thus, local producers are not likely to benefit from higher local prices as announced by the GOB;

- The "grey" share of the local market will make investment and competition more difficult, and thus will not help local producers to become more efficient or competitive. This development will not help to prepare the local poultry industry for future EU integration and liberal trade.

- Illegal trade related to weak Customs control will continue. New, higher duties will not make Customs control more efficient.