



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 6/13/2005

GAIN Report Number: BU5005

Bulgaria

Dairy and Products

Dairy Genetic Material Market Brief

2005

Approved by:

Brian Goggin
U.S. Embassy

Prepared by:

Mila Boshnakova

Report Highlights:

The dairy farming in Bulgaria has undergone dynamic changes over the last 5 years related to restructuring and modernization. After the initial collapse of this sector in mid - 1990s, a clear trend of commercialization and enlargement of dairy farms is observed. The entire dairy industry is mobilizing resources and puts efforts to meet the stringent EU sanitary and hygiene requirements. Investment is active and demand for improved genetics and highly productive breeds is increasing. The U.S. dairy genetics companies made a market breakthrough in 2004/2005, and currently enjoy an expanding market share and an increasing demand. Current USDA/FAS technical assistance programs have assisted local dairy farmers in getting more knowledge and experience about U.S. dairy management practices, and supported the outreach and presence of the U.S. genetics suppliers.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Sofia [BU1]
[BU]

Market Overview	3
The EU future	3
Milk Quota	3
Payments.....	3
Quality and Safety.....	4
Future Trends	4
Current status of dairy herds	4
Fresh milk supply and demand	5
Milk quality	7
Market for genetic material	9
USDA Technical Assistance.....	9
Domestic Support	10
Bulgarian Government Technical Assistance	11
Agricultural Policy	11
Veterinary/Food Safety Policy.....	11
Legislation in the dairy sector	11
Milk processing and supply of finished dairy products	12
Market Players	14
Prices	14
Consumer demand	15
Trade	16
Trade regime	16
Exports.....	17
Export Policy.....	18
Imports	18

Market Overview

The dairy sector in Bulgaria has undergone dramatic changes in the period since 1992 when the dairy farms (fixed assets and livestock) were privatized. As of today, the dairy sector continues its dynamic development in an effort to respond to upcoming EU competition and to meet the EU sanitary and hygiene standards. Major efforts are directed towards investment in any aspect of the dairy business, starting from investment in high quality genetic material; upgrading of farms, milk collection stations, and dairy processing establishments; and promotion of trade, especially exports. Factors contributing to revitalization of the sector are the development of retail and food service sectors, as well as increased exports of processed dairy products over the last 3 years.

The EU future

Bulgaria concluded its negotiations with the EU under Agriculture Chapter in 2004. Despite the ambitious goals in the dairy sector, the final decisions were more negative than expected.

Milk Quota

A key issue was the national milk production quota. The country requested 2,100,000 MT of raw milk (of which 80% for processing and 20% for direct sales), but the approved quota was sharply reduced.

As a result, a quota of 722,000 MT of milk for processing (deliveries) and 257,000 MT of milk for direct sales, or total 979,000 MT quota for milk was approved — this was only 46.6% of the requested by Bulgaria amount, and equal to 67 percent of actually produced milk in 2003. The quota was based on official statistical data for the 2000-2002 period. Due to significant gray sector and underreported sales, the quota did not reflect the realities in the dairy sector. Thus, the quota was lower than the current milk production and did not provide any potential for further growth in milk production.

This production quota does not include buffalo milk which can be produced, processed and traded without any quantitative restrictions. Bulgaria also is granted a buffer quota of 39,180 MT which will be released by 2009 in case the milk for processing is increasing, and the milk for on-farm consumption is declining.

Payments

The direct payments in the dairy sector are calculated based on an amount determined by the EU for the respective period (33.9 Euro/MT of milk for 2007 and the following years) multiplied by the milk quota or total about 33 million Euro.

Bulgaria will be using a scheme for progressive increase in direct payments: 25% of the level paid in the EU, will be paid to local farmers in 2007; 30% in 2008; 35% in 2009; 40% in 2010, and each after this period a growth of 10% annually in order to reach the EU level or 100% by 2016.

Dairy sector will be supported in several ways:

- indirectly, dairy farmers will receive payments per a hectare for their pastures. It is still not known what will be the minimum size per a farm – 0.3 HA or 1.0 HA – to be supported by these payments;

- total 388 million Euro (2007-2009) are allocated for a market support dairy, field crops, rice, meat and sugar sectors. It is still unknown what will be the share of market support for the dairy sector alone.
- Additional support to promote consumption of milk;
- Export refunds for certain dairy products exported to non-EU markets;
- Various programs under the regional development funds (total 733 million Euro for 2007-2009).

Quality and Safety

A grace period of 2 years, until April 30, 2009, was granted to dairy farmers and processors who can still produce and process milk which does not meet the EU quality criteria. Thus, the dairy plants will be separated in two lists, those who can process and export EU quality milk; and those who can work with under-quality milk and sell it on the local market only. The dairy products for the local market will have a different identification mark to differentiate from those which can be traded with the EU.

The same grace period is granted for enforcement of EC Directive 2597/97 regarding drinking fresh milk categorization. During this period, a milk with a fat content of 2% can be sold on the local market as semi-nonfat; and milk of fat content of 3% will be sold as full fat milk. Within this period, the local milk producers will have sufficient time to adapt to the EU milk quality standards.

Future Trends

- Most experts forecast shutting down of smaller dairy farms and further commercialization of the sector; consolidation of farms and dairy plants; growth in size for both farms and plants; active investment in the whole sector, and improvement in dairy genetics and overall dairy management in order to meet the EU requirements for quality and safety.
- According to some experts, the restrictive milk quota means that by 2009, the average milk yield should increase to 4,900 liters/cow, and by 2016 – to 6,300 liters/cow. Some experts say that Bulgaria may need to reduce the number of dairy cows to 200,000-250,000 by 2009 and to 150,000-200,000 by 2016. Most likely, the dairy farms will grow and consolidate so that most farms will have an average size of 50-100 cows.

Current status of dairy herds

During the period after 1992, the number of dairy cows declined for several reasons:

- privatization of dairy farms and distribution of dairy cows in private hands. This process (1992-1995) was often accompanied by lack of appropriate facilities (barns, milking tools, etc) and inputs, and in most cases resulted in distress slaughter;
- in general, feed accounts of 70-80 percent of milk production cost. Thus, in years when the feed shortage occurred, most dairy farmers were not able to cope with higher expenses, especially in time when access to commercial credit was very difficult, and domestic support was minimal (mainly prior to 2000);

In 2004, total number of cows increased from 356,00 (2003) to 384,800 or by 8.1% (366,000 according to other estimates). Still, the growth in the number of dairy cows is far more significant than the increase in average productivity/yield.

In 2004, the number of cattle farms increased by 13.2% compared to 2003, the number of farms raising dairy cows increased 14%. Cows represent 55.5% of total cattle, dairy cows are 95.8% of total cows.

Still, 48% of all cows are raised at 82% of total farms, all very small, with one to two cows (2004 data). Overall, however, this percent is lower than in 2003 when 58% of all cows were raised at such farms.

The remaining 18% of dairy farms are those which represent the commercial dairy sector, they produce the bulk of milk for the market and the usual size of these farms vary from 10 to 100-150 cows. The largest farms, which represent only 2% of total number of dairy farms, raise 22% of all dairy cows. The milk yield at these farms on average is about 3,700-3,800 liters while at small farms, the average yield is 3,400-3,500 liters.

Dairy animals in Bulgaria as of May, 2004			
	000 head of livestock	Farms, 000 numbers	Average number per a farm
Cattle, total	692.9	190.2	3.6
Cows, total	384.8	174.6	2.2
Calves below one year	220.8	117.9	1.8
Buffalo	8.1	1.7	4.7
Female buffalo	4.4	1.6	2.7
Sheep, total	2028	216.8	9.3
Ewes	1360.7	214.3	6.3
Goats, total	1068.8	232.1	4.6
She-goats	611.8	229.7	2.6

Source: MinAg

Fresh milk supply and demand

Production of milk in Bulgaria in recent years has stabilized at 1.4 –1.5 million MT. Production of cow milk is about 85% of total milk supply, at a level of 1.3 million MT.

Fresh milk production 2001-2004, in MT				
	2001	2002	2003	2004 Est.
Cow milk	1,224,050	1,305,912	1,308,525	1,330,000
Total milk	1,391,885	1,508,621	1,504,010	1,574,700

Source: MinAg

Production of cow milk has been gradually increasing over the last several years. During the years, its share has been fluctuating between 85% and 92% of total milk output.

Number of cows, average milk yield and milk production, 2002 – 2004			
	2002	2003	2004 Est.
Dairy cows, head	355,000	356,000	384,800
Milk Yield, liters	3,676	3,675	3,520
Production, MT	1,305,912	1,308,525	1,357,200

Source: MinAg. Note that there are small variations in cow milk production for 2004 due to lack of final official data

Due to small size of dairy farms and difficulties in milk collection, the share of purchased and processed milk has been fluctuating during the years. A good indication for the commercialization of the sector is gradually increasing share of milk for processing vs. milk for direct use at farms.

In 1990s, the share of processed milk was rather small. Most fresh milk remained at farms for own on-farm consumption in various forms. Some of the cheese or other dairy products produced this way were traded among villagers. This situation was closely related to semi subsistent type of dairy farming. By 2000-2002, dairy farms started to expand and increased their scale of operation on the expense of gradually dying small farms. As a result, the share of processed milk vs. direct use increased. In years since 2000, the share of milk for processing has been over 50% of total milk output, compared to less than 20% in time prior to 2000.

- In 2003, total produced milk was 1,459,859 thousand liters of which 57.8% was purchased and processed (843,525 thousand liters). This represented a growth of 7-8 percent in quantity of processed milk over 2002 and 16 percent growth compared to 2001.

By the types of milk, the share of purchased and processed milk to total production was 62.3% for cow milk; 54.3% for sheep milk and 54.4% of buffalo milk. Within total purchased and processed milk, 93.9 percent was cow's milk, 5.4 percent sheep's milk, and less than one percent of goat and buffalo milk.

- In 2004, estimated milk production (source: MinAg) was 1,574,700 thousand liters/or MT (7.8% annual growth), of which 1,357,200 MT cow milk (86%); 5,594 MT buffalo milk; 100,140 MT sheep milk; and 111,755 MT goat milk.

The estimated share of purchased/processed milk was on average 60 percent (industry estimate) or about 4.4 percent growth in the volume of purchased/processed milk over 2003.

The category of milk for direct use was declining over the recent years to reach a relative share of 31% of total milk in 2004. In general, the share of this category of milk still remains alarmingly stable at 31%-36% of total milk output.

Milk processing is concentrated in Central-South Bulgaria, around Veliko Turnovo (9% of total purchased milk); Plovdiv (12%) and Sliven (10%). This triangle represents the highest concentration of both dairy farms and dairy plants in Bulgaria.

Milk production and use in 2003, in thousand liters and in percent		
Processed at plants	843,525	57.8%
Direct sales by farms	235,600	16.1%
On-farm use	321,274	22.1%
Other use	59,460	4%
Total milk	1,459,859	100%
Source: MinAg		

Collected and processed milk in 2001-2003, in thousand liters and in percent							
Type of milk	Total collected and processed milk in 2001 in mln. Liters		Total collected and processed milk in 2002 in mln. liters		Total collected and processed milk in 2003 in mln. liters		Change 2003/2002
Cow	767	92.8%	728	93.4%	792	93.9%	8.7%
Sheep	41	5.6%	45	5.8%	46	5.5%	3.0%
Goat	2	0.2%	1	0.2%	1	0.2%	9.9%
Buffalo	10	1.4%	5	0.6%	4	0.4%	-29.4%
Total	730		780		844		8.1%

Source: MinAg

According to the industry sources, local production of fresh milk does not meet the demand. The shortage of raw milk is estimated at about 40% and is compensated by imports of dry milk, mainly non-fat. Currently (2005), these imports are estimated at 9,000 MT-10,000 MT. A portion of this milk is imported illegally at lower prices, and often is more attractive as a raw material compared to fresh milk.

Supply and demand of fresh milk, 2002-2004, MT			
	2002	2003	2004
Fresh milk production	1,508,621	1,504,010	1,574,700
Imports (powder milk)	3,277	9,421	8,000
Total supply	1,511,898	1,513,431	1,582,700
Direct use	540,845	475,245	497,200
Exports in powder milk form	200	100	100
Use for processing	803,993	862,986	900,000
Animal feed use	166,860	175,100	185,400

Source: MinAg, Dairy Marketing Bulletins

Milk quality

Milk quality is one of the biggest challenges to the dairy industry today. There are a number of issues related to this problem such as:

- Much of the milk is produced at very small farms, 1-2 cows per a farm. According to industry sources, currently 75 percent of milk processed at dairy plants is coming from such small farms. These farms can not invest and maintain the necessary hygiene, feeding, genetics, best practices and overall management leading to production of good quality milk;
- Small dairy farmers are not motivated enough to produce high quality milk since the milk purchase prices are based mainly on the volume – per a liter, and only afterwards on quality characteristics;
- Lack of sufficient number of milk collections stations, and lack of proper testing of milk quality at the stations due to poor equipment. Often, such testing is very basic and is not based per a farm/farmer but rather a general testing is done for all milk delivered from the milk station to the plant.
- Another issue is related to the fact that only a limited number of milk collection stations have separate collection of various types of milk – cow, sheep and goat. Often, the milk is mixed. For this reason, those processors who want to be more competitive by

producing and selling higher value products from sheep and goat milk, have more difficulties to procure raw materials. In most cases, it means higher logistical, collection and testing cost since they need to collect directly from a large number of small farms (large commercial sheep and goat farms are a few).

As a result of milk quality issues, several practices became popular on the market:

1. Although milk quality testing at dairy plants is much better compared to collection stations, the general shortage of milk forces most dairy plants to compromise with quality and to seek other ways to improve milk quality such as adding additives/powder milk/whey etc. For example, due to extra water content (since the milk prices are based on delivered liters) in the fresh milk, especially in milk at collection stations, processors often use additives such as gelatin or starch to improve the milk density. Often non-fat powder milk is added to the fresh milk to improve low protein content.

However, these additives are not placed on the labels due to expected negative consumer reaction. In Bulgaria, consumers are sensitive regarding any additives to milk, they prefer a taste of pure natural milk. Only in recent years, due to diversified market, sugar and fruit flavors mainly in yogurt, and less in fresh milk, became popular.

2. Due to the quality issues, the major processors who want to secure good quality and safety of their products are working with their own selected network of farms. These farms are regularly inspected by the processors, technical assistance and financial help is provided to the regular milk suppliers. Such policy is performed by market leaders Danone, United Milk Company, BBB group, TirBul, L B Bulgaricum, Zorov Ltd. and by other smaller dairy plants, most often on a regional basis.
3. Due to general shortage of fresh milk and the competition for good quality milk, often milk collectors (companies who visit villages and collect milk at certain days), have to compete on a territorial/regional basis. Due to comparable prices nationwide, other factors such as regular payments for delivered milk or additional support are also taken into account.
4. In order to encourage production of higher quality milk, the MinAg started to provide subsidies for first quality milk (see domestic support). Overall, this practice had a positive effect, however, it required a lot of GOB resources in order to control the origin of the product and the proper testing. Allegedly, some farmers mismanage the program by providing better quality milk as a sample valid for the support program, and worse quality milk for a regular delivery. In other cases, processors react by reducing their purchase prices, so that the actual ex-farm price does not change.

Milk quality is one of the major challenges to farmers in terms of responding to the EU quality standards. Currently, the bulk of milk produced in the country has quality below the lowest quality standards of the EU. Reportedly, only about 1-2 percent of fresh milk meets the EU quality requirements. According to industry sources, the amount/number of microorganisms is the most difficult indicator to be met. On average, the number of microorganisms in milk should be reduced more than 3 times in order to meet the average EU criteria – currently, the bulk of milk has on average 360,000 microorganisms in milliliter and the EU standard calls for 110,000 microorganisms in milliliter.

Market for genetic material

Forced by the new EU regulations and the developing market, in 2004 and 2005, dairy farmers started to actively seek for a genetic improvements of their herds.

Currently, the market for dairy cattle semen is estimated at 180,000 doses (2004 market size). This market size is estimated based: 1/ on the official estimate that 60 percent of all cows are artificially inseminated; and 2/ on actual semen sales. Imported semen (mainly U.S. and Canadian origin) in 2004 accounted for about 40 to 50 percent of the market (90,000 doses). Local Agency for Selection and Reproduction in Animal Breeding (ASRAB) reportedly sold 80,000 to 90,000 doses of local origin.

According to industry sources, in 2005, the share of imported semen may reach over 90,000 doses or more than 50 percent of the market. The U.S. market share alone is estimated to reach 40-45 percent (70,000 to 80,000 doses). Other players of the market are Canadian, French, Austrian and German suppliers. Some importers of U.S. dairy genetics reported three-fold increase in their monthly sales in early 2005 compared to the same period in 2004. It is assumed as well that the total market size may slightly increase due to higher percent of artificially inseminated cows, about 65%, in 2005.

In addition to semen sales, there is an increasing demand for breeding live animals, mainly pregnant heifers, and also for embryos. Currently, breeding livestock is imported from Austria, Holland and Germany. For the time being, local importers prefer to import EU-origin live dairy animals mainly due to easier logistics and lower prices due to lower transportation cost.

USDA Technical Assistance

In 2004, USDA/AgSofia started two technical assistance programs which helped the dairy sector development. The first was Trade and Investment Mission (in 2003-2005) which brought a number of U.S. businesses to the country, including suppliers of U.S. semen. The second was directly targeted at the dairy genetics and dairy management training.

As a result, two U.S. companies are currently importing and trading in U.S. genetic materials in the country. Both companies have well developed distribution and representative offices and provide a number of businesses and services such as: sales of semen; consultations to farmers on how to choose the right genetic product; overall dairy management consultations including but not limited to feeding, veterinary care, health care etc. Both companies were very proactive and strongly promoted U.S. genetics on the market.

As a part of USDA technical assistance programs in dairy genetics, in 2004 four U.S. consultants visited the country and had 2 seminars (in central and northern Bulgaria) on dairy genetics and dairy management. The seminars registered a very high interest on the part of farmers, experts, consultants, University researchers, and media.

In 2005, the importers of U.S. dairy semen were very active and took part in all relevant local and regional shows and exhibitions such as Agra Show (Plovdiv town, March), the Livestock Exposition (Sliven town, May) and Dobrich Fair (Dobrich town, August). The participation in the shows was accompanied by seminars, working meetings with farmers, distribution of bulletins and promotional activities. Importers are working actively with local Association of Dairy Farmers and National Breeding Association to organize various meetings and seminars to promote U.S. dairy genetics and management as well as their products. Two more dairy management seminars are planned for the fall of 2005. Most likely, the seminars will be conducted by U.S. researchers from the University of Wisconsin.

In parallel, the AgSofia started to work with policy makers and regulators to ensure that both trade policy and agricultural regulations, including import rules and rules for local sales, do not create non-scientific barriers to U.S. businesses.

These efforts started in the fall of 2004 with a round table with major local regulators from the MinAg, ASRAB, Association of Dairy Farmers, National Breeding Association and other stakeholders. The efforts were reinforced in early 2005. As a result of AgOffice intervention, and with the support of the U.S. consultants, the MinAg developed a special new regulation on imports and local sales of semen, in accordance with the international principles.

Currently, it is estimated that the successful USDA policy work along with technical programs are supporting U.S. dairy semen sales valued at \$300K. With an open and non-restrictive trade regime, it is expected that these sales have potential to grow to about \$0.5 million in 2005/2006.

Domestic Support

There are several support programs implemented by the MinAg through the State Fund Agriculture, the main domestic support agency, as follows:

1. Program for granting bonuses/subsidies to farmers for prime quality fresh milk.

In 2005, the subsidy was increased 12 percent to 9.0 million leva (\$6.0 million). The dairy producers registered under the law and eligible to have access to this support program in 2005 are 7,500. This is a significant increase compared to year 2000 when only 1.8 million leva were disbursed to 2,070 dairy farmers. In 2004, according to the MinAg, about 150 million liters of milk (cow, sheep and buffalo) was a subject of these subsidies (8.0 million leva).

The disbursement starts on April 1 and provides subsidies as follows: 0.05 leva/liter of prime quality cow's milk; and 0.07 leva/liter of prime quality buffalo and sheep's milk.

Farmers from disadvantaged areas of Rodophes mountains, North West Bulgaria and Strandga Sakar, are granted 0.01 leva/liter more compared to farmers from other regions.

The above subsidies are granted at a daily limit per cow of 18 liters; for sheep - 1.2 liters; and for buffalo - 12 liters. Farmers with more than 200 cows can not get more than 130,000 leva (\$87,000) of such subsidies per year despite higher number of animals.

2. A subsidy program for 1.5 million leva (\$1.0 million) for imports of breeding heifers of dairy breeds (introduced in early 2005).

The importers and farmers who purchase imported heifers will be eligible for a subsidy of 800 leva/head (\$533). Each farmer can get a subsidy for not more than 60 imported breeding heifers. The origin of the heifers should be from the EU.

3. The MinAg is providing funds for maintenance of the national pedigree herds (2.0 million leva in 2004), for breeding animals at farms involved in selection (also 2.0 million leva in 2004); for the breeding associations (200,000 leva in 2004); for imports of bulls for production of semen for artificial insemination etc. See BU5003, Trade Policy Monitoring Report, for more details.

4. Over the last 3-4 years, the major source of investment in the dairy sector was the EU-SAPARD program. Eligible farms are those who have at least 15 dairy cows; or 100 dairy sheep; or 10 dairy buffalo; or 10 dairy goats. Farmers also have to justify the use of land (own or rented) in size of one hectare per a cow; half a hectare per a heifer; 0.2 HA per a sheep or goat. Priority is given to young dairy farmers, up to 40 years age; farmers who practice farming as their major source of income; and farms with less than 50 workers. General requirements are improvement of sanitary and hygiene conditions at farms; and improvement of milk quality.

5. SAPARD program is also providing investment for dairy processors. The plants should have a capacity of at least 3 MT of fresh milk/day; to present justifications about regular contracts for purchasing of milk from registered dairy farmers; and to have no due payments to the state.

Bulgarian Government Technical Assistance

In 2004 and 2005, the MinAg through its extension service offices, and together with the Association of dairy farmers, hold a number of seminars on various topics such as dairy management, feeding, milk quality, and future EU dairy market regulations.

In April, 2005, the Ministry of Economy allocated 1.0 million leva (\$600,000) to support an introduction of food safety/HACCP system at dairy processing plants. The funds are provided by the state budget. The dairy establishments will contribute 50 percent of the necessary amount from their own funds and the other half is provided by the GOB. Each establishment is eligible for not more than 10,000 leva (\$6,700) to be funded by the GOB. Thus, the total program amount will be distributed among 100 dairy plants. At the same time, it has been estimated that total 200 plants need significant financial help to introduce HACCP.

Agricultural Policy

Veterinary/Food Safety Policy

Around 2000, Bulgaria used to have 830 dairy processing plants, mainly small and medium size. As a result of introduction of EU food safety standards which required significant investment, total 535 establishments were shut down by the veterinary authorities during the last 5-6 years.

As of April 2005, there were 295 dairy processing establishments of which 28 are approved to export to the EU, or about 10 percent. It has been estimated that about 30 percent or about 90 dairies will be shut down before 2007 due to inability to meet the EU sanitary and hygiene norms. The remaining 200 dairy plants have a chance to be approved if the necessary investment and improvements are done to meet the EU safety/quality requirements. Thus, Bulgaria may have about 230 or less dairy processing units by 2007 when it expects to join the EU. Those establishments will be larger in size/capacity, upgraded, and working at the EU food safety norms.

Legislation in the dairy sector

There are several major laws and regulations in the dairy sector. These are the Veterinary-Medical Act (Official Gazette #42/5.05.1999 and updated in Official Gazette #83/19.09.2003); the Food Law (Official Gazette #90/1999 and updated version in Official Gazette #102/2003); and the Animal Breeding Act (Official Gazette #65/2000 and updated in Official Gazette #18/2004). These major laws regulate production, processing and trade in the dairy sector.

The key decision in the area of dairy genetics regulations was taken in 2004 through the updated Animal Breeding Act. According to this law, newly formed Breeding Associations will be responsible for selection and reproduction in animal breeding (the list of the breeding associations can be seen at www.mzgar.government.bg). The Agency for Selection and Reproduction in Animal Breeding will have only control/registration functions. A grace period until December 2006 is given to the Agency to stop performing currently existing functions and to transfer them gradually to the Breeding Associations.

According to the Animal Breeding Act, a very important element of the dairy market is the establishment of so called National Dairy Board. The Board was officially founded on April 17, 2005, and united dairy farmers, dairy processors, traders and breeding associations. It includes the existent to date Associations of Dairy Farmers and Dairy Processors.

The main goals of the Board are:

- to support the development of the dairy market;
- to protect and control the origin, quality and authenticity of Bulgarian dairy products;
- to control the quality of fresh milk via regional laboratories. There will be several mobile milk labs, initially set up in major milk production regions, and afterwards in the whole country, which will visit farms and milk collection centers. The labs will make milk tests using dairy farmers codes/registration numbers. The information about milk quality provided by the labs will be further used as a basis for payments to farmers, and most importantly, to regulate and control the distribution of the milk quotas (979,000 MT);
- to propose various support programs using EU funds;
- to evaluate the necessity of market intervention in order to prevent dairy prices from significant fluctuations;
- to prepare a registry of dairy products which have a protected name of origin.

The Dairy Board will have 8 regional offices. The MinAg is supporting the newly founded National Dairy Board with a subsidy of 300,000 leva (\$200,000); and its regional offices with another 550,000 leva (\$366,000).

In November, 2004, the MinAg initiated a registration for all dairy farmers in order to set up a nationwide database. This was the first step towards granting individual milk production quotas, a necessary element of the future EU dairy market/support programs. Those farmers who are not registered, not only will not be eligible for financial help but also will not be allowed to produce any milk. The registry/database will be used for monitoring of produced and traded milk; and for collecting information about milk quality. Farmers should have daily records in ledgers for the produced milk, its fat content, the number and type of cows etc. Milk collection stations will be also obliged to keep such records for purchased quantity and quality of milk. The first pilot start of the system is planned for April 1, 2006 when referent milk quotas will be determined for each farmer. The system will begin to function regularly by April, 2007.

Currently, it is estimated that the total number of dairy farmers in Bulgaria is 191,000. Out of those farmers, about 132,000 have officially registered as such with the MinAg as of March 2005. These registered farmers raise 313,160 cows.

Milk processing and supply of finished dairy products

There are several challenges in front of dairy processors today. On one hand, dairy plants have to compete to better quality milk and consistent supply of milk due to local milk

shortage. On the other hand, the plants have to invest in upgrading of facilities and introduction of EU sanitary/hygiene, safety and quality requirements. Last but not least, dairy plants have to compete on the local market with EU-origin dairy products and to aggressively export local dairy products to the EU and other traditional export markets such as the Near and Middle East.

Due to introduction of the EU safety regulations, a number of dairy plants were closed in the period since 2000. The total number of dairy plants has declined from 830 in year 2000 to 295 in early 2005. The decline in the number of dairy establishments was mainly at the expense of small size plants which accounted for 20 percent of all processed milk. Medium and large size plants process 80 percent of raw milk.

As of 2005, most dairy plants work for the local market (77%) and process about 42 percent of total processed milk. About 13% of total number of plants export to non-EU countries and also account for 42% of processed milk. Those which export to the EU are 10% of all plants (28 plants), and process 16% of total milk.

The major local dairy product is cheese in two main forms - white cheese and yellow cheese. Cheese is also the main export item. For this reason, its production has been gradually increasing in recent years and has stabilized at 80,000 MT-85,000 MT annually.

Total cheese production in 2003 (no data yet for 2004) reached 82,170 MT of which white cheese was 47,665 MT (54%) and yellow cheese was 31,356 MT (38%). Within the cheese production structure, there was a slight reduction in white cheese production (-3.4%) and increase in yellow cheese supply (8.8%). Among various types of white and yellow cheese, there was a growth in production of white sheep cheese (16.2 percent); and yellow cow cheese (12%).

Production of processed dairy products in 2002 and 2003					
Type of dairy products	Production 2002	Production in 2003			Change 2003/2002 in %
	Quantity, MT	Quantity, MT	Number of plants	Average production per a plant, MT	
Liquid dairy products/milk (000 liters)	28,591	32,063	97	330.5	12.1%
Cream, MT	636	1,062	19	55.9	67.0%
Yogurt, MT	134,602	126,728	156	812.4	-5.8%
Dairy desserts, MT	14,678	8,818	14	629.8	-39.9%
Milk oils, MT	1,053	1,336	90	14.8	26.9%
Total cheeses, MT	82,406	82,170	279	294.5	-0.3%
White cheese	49,321	47,665			-3.4%
Yellow cheese	28,832	31,356			8.8%
Other cheeses	4,253	3,149			-26.0%

Source: MinAg

In general, over the recent years, fresh milk and yogurt production have a tendency to decline vs. increased cheese production. This trend is related to the changes in consumer

demand and profitability which those products bring. Also, cheeses are better exportable products compared to all other dairy products.

Production of main processed dairy products in 2001-2003			
Production	2001	2002	2003
Fresh milk, 000 liters	38,563	28,591	32,063
Yogurt, MT	156,296	134,602	126,728
White cheese, MT	45,916	49,321	47,665
Yellow cheese, MT	23,415	28,832	31,356
Source: MinAg			

Market Players

Over the last 5-7 years, a lot of foreign investors opened dairy processing facilities in Bulgaria. The leader on the market is the French group Danone. Greek investors are also very active. In 2004, they opened a large processing plant "Tirbul" in the town of Sliven. In addition, Greek companies are the main buyers of Bulgarian cheese which is reportedly often re-exported to the EU and the U.S. under Greek labels. The Greek Delta group is a leader on the ice cream market. Among local market players are United Milk Company (brands Fibella, Vereia, Balkan), Jhosi (brand Jhosi), Zorov (brand Parshevitza), Meggle, Lines Holding (brand BBB) and others.

The state kept in its hands only the company L B Bulgaricum due to the state control on the patent of the two yogurt bacteria – Lactobacillus Bulgaricus and Streptococcus Thermophilus.

Currently, two major Asian companies- Meiji/Japan and Vital Food Co./South Korea have long term license contracts with the GOB via L B Bulgaricum to produce Bulgarian yogurt using the these bacteria. Reportedly, according to the latest marketing data, regular consumers of Bulgarian yogurt in Japan are 28 million people.

Prices

In 2004, the ex-farm milk prices were attractive for dairy farmers. The year started with a higher price, by 42 percent, compared to average 2003 annual prices, and 47 percent higher than the price in the same period in 2003. The average fresh raw milk ex-farm price in 2004 was 0.38 leva/liter (\$0.25). As a result, the prices of dairy products also increased but at a slower rate, from 5 to 10 percent, compared to 2003.

Average wholesale prices, 2004:

Fluid milk: 0.80 leva/liter (\$0.53); yogurt-0.47 leva/500 grams (\$0.31);
Butter - 4.70 leva/kilo (\$3.13); cow cheese – 3.20 leva/kilo (\$2.13);
Yellow cheese- 6.10 leva/kilo (\$4.06)

Average retail prices, 2004:

Fluid milk: 0.90 leva/liter (\$0.60); yogurt-0.53 leva/500 grams (\$0.35);
Butter - 6.24 leva/kilo (\$4.16); cow cheese – 3.40 leva/kilo (\$2.26);
Yellow cheese- 6.80 leva/kilo (\$4.53)

The key factor determining the ex-farm milk prices in addition to supply and demand, is feed. The cost of feed accounts for about 70 to 80 percent of milk production cost. In 2003, when the grain crop was poor, feed prices increased sharply from 11 to 26 percent compared

to 2002. As a result, milk prices started to climb up by end-2003 when farmers began using 2003 grain crop, and this trend continued in 2004. In 2004, however, the abundant crop and favorable feed prices led to stabilization and slight decline in milk prices which has continued to date.

In general, it is considered that the ratio of ex-farm milk price to the price of feed should be between 1:2.5 to 1:3 to guarantee a profitable dairy farming. Based on this indicator, 2003 was not a good year for dairy farmers. In this year, this ratio was 1.3 to 2.1 while in 2002, the ratio was between 1.8 and 2.6 which shows a better profitability for the dairy farmers. The year 2004 was also considered as a very good and profitable year.

Another indicator which is monitored in Bulgaria is the relative share of ex-farm price/cost in the retail price of the end product. It is considered that this share should be about 55-60 percent. In years since 2000 to date, the share of farmer's cost in the retail price has been decreasing as follows:

In fluid milk: from 44% to 35%;
In yogurt: from 33% to 29%
In cow cheese: from 63% to 56%
In yellow cheese: from 53% to 50%.

This indicator shows the expanding share of processors, trade, marketing and distribution in sales of dairy products. It is assumed that the trend will continue and stabilize around the above percentages in the near future.

Consumer demand

Dairy products are considered as a staple food and are always present in daily Bulgarian diet together with bread. The lowest income population diet includes, as a rule, a loaf of bread and a jar of Bulgarian yogurt.

Due to long lasting traditions of yogurt in Bulgaria, Bulgarians consume more dairy products than other nations. However, in the time after 1990, due to economic and social changes, consumers had to change their eating habits and consumer preferences. In 1989, the average daily portion of yogurt was 175 grams, while in 2000, it was reduced to 70 grams (60 percent reduction). The same trend is valid for the consumption of fluid milk, which consumption has dropped 50 percent; and for cheese, where the drop was by 10 percent.

In the period 2000-2005, however, consumption registered a steady growth for all categories of dairy products. Consumption at home (excluding consumption at food service outlets and institutions), reported by the National Statistics Institute (annual consumption per capita), has changed for the period 2000-2004 as follows:

Fresh/fluid milk - from 28.9 liters to 27.0 liters;
Yogurt – from 22.1 kilos to 26.0 kilos;
White cheese – from 9.2 kilos to 10.5 kilos;
Yellow cheese – from 2.1 kilos to 2.6 kilos;
Other dairy products - 1.2 kilos to 1.5 kilos
Butter- 0.4 kilos to 0.5 kilos.

It is forecast that this trend will continue with the expansion of the retail and food service sectors, and especially due to gradually growing consumer income. Since the average consumer still consumes less dairy products than in time prior to 1990, the potential of this market is significant.

Since 2000, the market grew not only in size. The demand has significantly changed in terms of assortment and variety of dairy products. The share of consumers who prefer and purchase regularly high-end dairy processed products has increased to about 20 percent of all consumers (industry estimates) as of 2005.

Trade

Trade regime

There are WTO and EU import quotas for dairy products as follows:

2004:

WTO Tariff rate Quotas:

Milk and cream in powder, fat content less than 1.5% (HS# 0402 10) - 200 MT at 15% import duty. The TRQ was fully used in 2004. As of April 18, 2005, this TRQ was also fully used.

Whey (HS# 0404 10) – 200 MT at 25% duty; in 2004, only 10 MT were used.

Butter and milk oils (HS# 0405 10,90) – 1,500 MT at 30% duty. In 2004, the TRQ was fully used;

Cheese and curd (HS# 040610,20,30), 3,000 MT at 17.5% of which 2,000 MT for the EU countries and 1,000 MT for non-EU. This TRQ also fully used in 2004.

Cheese for processing (HS# 0406 90), 400 MT at 25%. In 2004, 188 MT were imported under this TRQ.

The EU has the following trade preferences in import duties:

- Yogurt duty of 32% to 40% depending on the fat content;
- Milk paste –8%

EU-TRQs:

- Powder milk and cream(HS# 0402 10 and 0402 21) – 3,000 MT at 10% duty. The TRQ was fully used in 2004;
-
- Butter (HS# 0405 10 and 0405 90) – 100 MT at 20% duty. The TRQ was also fully used in 2004;
- Cheese and curd (HS #0406)- 3,000 MT at 0%. Total 980 MT were imported under this TRQ in 2004.

2005:

In 2005, the above preferences under WTO and EU are the same. The EU-TRQ for cheese and curd was increased by 10% to 3,300 MT.

In 2005, Bulgaria has several bilateral trade agreements and preferences for dairy products as follows:

- Croatia: HS# 0403 , yogurt, 150 MT at 50% reduction of the regular duty;

- HS# 0405 20, butter, 100 MT at 50% reduction in the regular duty.
- Turkey: HS# 0406, cheese for processing 100 MT at 21% duty;
 - Macedonia: HS# 0406 cheese, 100 MT at 21% duty;
 - Albania: HS# 0406, cheese, 200 MT at 0%;
 - Serbia and Montenegro: yogurt- 100 MT at 20% duty; butter and oils- 100 MT at 20% duty; cheese and curd- 100 MT at 20% duty.
 - Moldova, Israel, and Bosnia and Herzegovina – no preferences for dairy products.

Bulgaria is granted quotas for exports to the EU as follows:

- Yogurt, 500 MT for the period July 1, 2003-June 30, 2004 at 0%. Same for 2004/2005;
- Cheese and curd - 6,400 MT for the above period at 0% and annual growth in the TRQ of 300 MT. For the period July 2004/June 2005, the quota is 6,700 MT.

Exports

In general, Bulgaria is among the top 30 world dairy exporters. Exports of cheese have been traditionally strong.

After a temporary decline in 1990s, cheese exports began to increase since 2000. Exports have been growing over the last several years, 30% in 2003 over 2002, and 10% in 2004 over 2003. The major export product is cheese which accounts for 90%-96% of total dairy exports.

Reasons behind increased cheese exports lie in higher share of milk for processing; improved fresh/raw milk quality, and better quality of processed products/cheese; and introduction of EU safety and hygiene standards.

Out of total 28 export licensed for the EU plants, 15 are exporting white cheese and the rest export yellow cheese. In 2004, 22 companies exported cheese as 5 of them accounted for more than 50% of total cheese exports.

Traditional export markets for Bulgarian cheese are the United States, Greece, Germany, Lebanon, Australia. Regular export destinations are regional markets such as Macedonia and Yugoslavia.

Exports of dairy products, 2003 and 2004, MT		
	2003	2004
Milk and cream	612	301
Yogurt	116	108
Whey	0.5	2.5
Milk oils/butter	36	149
Cheese	13,838	15,228
Total	14,602	15,789

Still the major difficulty for successful exports is the lack of consistency in supply of good quality fresh milk; use of powder milk in cheese in cases when it is banned; not consistent cheese quality; and lack of introduced food safety standards at the establishment level. For these reasons, Bulgaria often under-use the EU export quotas (see the trade section above).

Another reason for under utilization of the EU quota is its regulation. Those exporters who want to use the EU-TRQ, have to justify exports of at least 24 MT/year without the TRQ at an

import duty in the EU of 1.52 Euro/kilo which is 37,000 Euro for a container – an amount which is often unaffordable for smaller processors.

Exports of other than cheese dairy products are limited. Yogurt can be exported to the EU under a TRQ for 500 MT for the period July 2004/June 2005 but the quota was underused due to tight competition on the EU market. Another reason for weak yogurt exports is the short shelf life (10 days) of the traditional Bulgarian yogurt. Also, local exporters lack a good distribution in the EU. Therefore, this product will not likely be a major export product in the future.

Another obstacle to exports are high duties for Bulgarian origin products in the region – about 40% in Romania, Greece and former Yugoslavia.

Export Policy

The two major export dairy products, white and yellow cheese, are among the leading ag export items but have difficulties in competing on the global market with traditional cheese suppliers. For this reason, in 2004, the MinAg introduced export subsidies for non-EU markets (Ordinance #42 to the Farm Bill for export subsidies, Official Gazette #97/2003). The subsidies will be eliminated by 2007.

The maximum limit of the export subsidy for white cheese is 250 leva/MT (\$167) and 350 leva/MT (\$233) for yellow cheese. Total allocation for dairy export subsidies in 2004 was 1.2 million leva (600,000 Euro) of which 38,000 Euro was used. In 2005, the allocation was reduced to 89,000 Euro.

According to the WTO commitments, the respective outlay levels for white and yellow cheeses are 7.0 million Euro and 1.0 million Euro, for 5,700 MT and 800 MT, respectively, levels much higher than the currently applied export subsidies.

The 2005 winners of export subsidies were four dairy producers for total 880 MT: United Milk Company (200 MT of cheese to Croatia); Shipka 99 Ltd (450 MT for Lebanon); Philipopolis Co. (70 MT for Croatia, Lebanon and Azerbaidgan); L B Bulgaricum (160 MT to Lebanon and Azerbaidgan). In 2004, only United Milk Company was able to export 105 MT to Lebanon.

Imports

Imports of dairy produced are concentrated on those products which are not produced locally or are produced in limited quantities, such as soft cheeses, cream, concentrated milk, Italian and French type cheese, powder milk, whey, and others to meet the consumer demand. Over the last 3 years, imports have registered a steady growth.

In 2004, total dairy products imports were 24,532 MT, a growth of 27% compared to 2003. In 2003, imports (19,235 MT) were 37.8% higher than in 2002 (13,989 MT).

Imports of dairy products, 2003 and 2004, MT		
	2003	2004
Milk and cream	10,176	12,452
Yogurt	106	75
Whey	4,532	5,848
Milk oils/butter	1,704	2,050
Cheese	2,748	4,107
Total	19,235	24,532

Imports of cheese is focused on cheese such as Emmental, Cheddar, Camembert, Brie and Edam, mainly from Germany, France, Austria, Denmark. Cheese imports have been growing over the last 3-5 years, especially in 2004, when the annual increase was 50% (see the table above).

An important imported product is powdered milk, together with whey. These two products are imported as a substitute for fresh milk and to compensate for the shortage of fresh milk for processing.

Until 2003, powdered milk used to be declared upon imports as whey due to lower import duty for whey. For this reason, in July 2003, the GOB increased the import duty on whey from 15% to 64% to make it comparable to the one on powder milk (Decree #127/June 10,2003). This change, however, did not affect the amount of imports and it remained stable.

Whey imports in the period 2000-2004 were at 4,000 MT-4,500 MT. Traditional whey suppliers are Czech Republic, Slovakia, Hungary and Croatia.

Imports of powdered milk, despite the high duty of 64% and 68%, were about 5,500-6,000 MT (2000-2002), and grew to about 10,000 MT in 2003. In 2004, powdered milk imports were about 8,000 MT. Traditional suppliers of powdered milk are Ukraine, France, Lithuania, Hungary and Moldova.

High import duties on whey and powdered milk in 2004 and 2005 were negatively commented by local dairy processors, especially by those foreign investors who are producing confectionary products: the Greek Delta (ice cream); Nestle and Kraft Foods. Powdered milk is a major raw material for these manufacturers and these duties were diminishing the exportability and competitiveness of their confectionary products. Another reason for their appeal was the lack of any alternative substitute since the local production of powdered milk is negligible (less than 2,000 MT). Therefore, a special request was submitted to the GOB to temporary introduce zero duty on powdered milk and whey imports for the second half of 2005. As of today, it is not clear what might be the GOB response to this appeal.