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EU bans Bulgarian meat and dairy trade

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Report Highlights:

Meat and dairy sectors were the first to face the severe challenges of EU membership. At the end of 2006, Brussels decided to block Bulgarian meat and dairy trade with EU member states throughout 2007, cooled local expectations for growth and emerging euro optimism. It was interpreted as de facto safeguard measure in the food safety area since Bulgarian veterinary office was deprived from the ability to make final decisions. The decision is likely to have a significant negative impact on local industries and trade.

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Summary

On December 11, the EC Veterinary Standing Committee announced its decision to block imports of Bulgarian origin meat and dairy products due to sanitation concerns. Officially, the news came as a result of a detailed EC vet inspection in late November. The decision is not yet published in the Official Journal.

Brussels' decision was a surprise for local meat/dairy companies and led to heated debates in media and political speculations. The industry blamed the Ministry of Agriculture/Veterinary Office for falling behind their EU commitments, incompetence and red tape practices -- government approval of establishments with deficiencies had led to a total ban for the entire industry. Another allegation was lack of transparency and dialog with the government. The Government of Bulgaria (GOB), in turn, blamed the industry for incorrect reporting, inability to actually meet the EU norms, and overestimating of own capabilities.

Some experts commented that Bulgaria was the one to pay the high price of difficult Russian-EU meat trade negotiations.

Some high-level GOB officials introduced the idea that Brussels' decision was a result of late 2006 extra a high meat imports from third countries (Brazil, Argentina, Canada, USA) which would require one-year grace period for consumption of these stocks on the domestic market.

Food Safety Standards Implementation before November 2006

Over the last 5 years, meat and dairy industries have actively invested (mainly through using EU-SAPARD investment subsidy program) in upgrading and modernization of facilities. Investment in tangible assets, however, was not always accompanied with a professional understanding of food safety practices. Those who put efforts into actual HACCP implementation faced serious challenges with finding and retaining qualified personnel. On the other hand, most state vet officers lacked experience and a good understanding of HACCP regulations, especially concerning their practical application, which often resulted in their providing conflicting and/or wrong recommendations to establishments.

Beginning in 2000, the Bulgarian vet office has been shutting down those meat, dairy and food establishments which were not able to meet EU hygiene standards. Thus, the number of establishments has dropped from 2400 in 2000 to 528 in 2006, of which 199 in the meat sector, and 207 in the dairy sector. This process was difficult and painful.

In 2006, meat/dairy establishments underwent numerous preparatory inspections by local and EC vet experts. The industry was given a deadline (July 2006) by which all food safety standards were to be fully implemented. Those plants which were not able to meet these requirements were shut down. In August 2006, the remaining approved meat/dairy establishments were put in a public register.

The meat industry and the vet office/MinAg have never requested from Brussels a grace period after the date of EU accession. As a result, all meat plants assumed that they would be able to trade freely on the common market after January 1, 2007. For this reason, many did not apply for a separate EC export license.

In preparations for the EC inspection, dairies were divided in three categories depending of the type of milk they process, EU standard milk or sub-standard milk:

- first category (total 34 plants) - those who fully meet EU food safety norms and process EU standard quality milk, and trade free on the EU market;

- second category (68 plants) - which meets EU food safety norms but can process both sub-standard milk for the local market, and standard milk for the EU market, i.e a segregation of technological processes at the establishment level is required. According to industry sources, due to the fresh milk deficit, this category processes about 50 to 70 percent of currently produced fresh milk in country.
- Third category (123 plants), which process only sub-standard fresh milk and work only for the local market until end-2008. Unlike the meat plants, the dairy sector was given a grace period of 3 years following the accession to use and process sub-standard fresh milk for the local market.

The EC vet inspection, November 2006

The EC vet inspection in November 20-December 1 had a goal to confirm the level of preparedness of local industries to meet EU food safety standards. It covered 23 plants, randomly selected by the EC inspectors. Although the EC vet inspection report is not published yet, unofficially, the major findings of European inspectors were:

- lack of functioning HACCP system;
- lack of functioning traceability system;

Another conclusion was insufficient qualification of state vet officers at local/regional level resulting in incorrect guidance to establishments, and sometimes weak and inefficient control. Reportedly, some of the most striking violations were found at dairies.

The EC decision allowed only those meat/dairy establishments which have been granted export licenses by Brussels (total 105, of which 60 meat and dairy plants: 9 for fresh red meat, 6 for meat processing, 34 dairies, 11 poultry slaughterhouses; 42 fish and seafood establishments, and 3 plants for egg products, source: http://www.mzgar.government.bg/NacSlujbi/NVMS/odobreni%20_za_iznos.pdf) to continue to trade on the EU market after January 1, 2007, while those approved by the Bulgarian vet office (over 400 establishments), were banned.

Meat: Earlier in the fall 2006, Brussels announced its decision to ban fresh pork meat from Bulgaria due concerns over classical swine fever and continuing eradication, at least until September 2007. Currently, EU approved plants can use either local pork, process it under 72 C, and trade it on the common market (sausages, ham etc.); and/or use EU-origin/ EU approved country/establishment pork, process and trade it without limitations. Two different labels were provided for the industry: one for products meeting EU standards and another one for the local market. Reportedly, the Bulgarian vet office is currently considering a possible separation so that export approved plants would have to choose which type of pork to use (local or EU-origin).

Dairy: In the dairy sector, the EC inspection found that the number of companies in the second category, those that process both types of milk, is too high and create difficulties for the official control over traceability and segregation of milk for processing. It is often impossible to segregate sub-standard and standard milk throughout the dairy chain: farms - milk collection points – transportation companies – dairies, especially at the milk collection stations. A recommendation was provided to reduce the number of companies in the second category. Thus, the problem facing these companies was either to lose 50 percent of their raw material by switching to the first category; or to lose their EU market by falling in the third category. As of January 15, 14 of these plants switched to the first category and 7 to the third category. Those who stay in the second category will be able to buy and process sub-standard milk until the end of 2007 (not end-2008 as the third group).

Traceability system

A traceability system has been a challenge for the entire veterinary system as well as for the meat and dairy industries. Earmarking of animals has been completed, although the process was slow and accompanied by funding issues. The bottleneck was the introduction of a computerized system and a livestock database, and its connection with the slaughterhouses, warehouses and processing units.

In mid-2006, all regional state vets were equipped with computers and new software was introduced in late 2006. Currently, state vets are entering livestock data to "Eurovet" database but the process is very time and labor intensive. Reportedly, about 40 percent of animals are recorded as of early 2007. Private vet doctors and livestock farms managers may be encouraged to help the process although this is not yet formulated in any official documents. The Sofia vet office is concerned that additional funding is needed to accelerate this process, otherwise Bulgaria may not have an operating traceability system until the end of 2007.

Epizootic situation

Bulgaria was criticized for various issues related to implementation of surveillance/eradication programs for the TSE (BSE) and classical swine fever.

In 2006, Bulgaria had 7 outbreaks of swine fever (6 outbreaks in Yambol area, one in Bourgas area), one outbreak of blue tongue (October 2006, only serology, without virus isolation, Bourgas area), 5 outbreaks of Newcastle disease, and one outbreak of anthrax (Yambol area, in June). Bulgaria has not registered a BSE to date. Avian influenza was registered on 4 swans (no outbreaks on domestic poultry) in early 2006. The last FMD outbreak occurred in 1996 and the country is considered free of this disease as per OIE standards. In early January 2007, Bulgaria registered a Newcastle disease outbreak in Pleven area. The latest FMD outbreak in Turkey in mid-January 2007, close to the Bulgarian border, has put the vet office on high alert and the necessary preventive measures have been undertaken. On January 17, 2007 there was a classical swine fever outbreak in Shoumen area.

TSE/BSE: Destruction of remaining meat and bone meal stocks, about 1,500 MT, was a pending issue until finally stocks were burned at the end of 2006. Two incinerators (in Varna and Shoumen) were EU approved for destruction of risk materials and a tender process for a third one, financed by the EU (14.5 million Euro) and Bulgarian budget (3.5 million Euro) has begun. This incinerator is likely to be ready by 2008/09.

Classical swine fever: In late 2006, the vet service put extra efforts to a classical swine fever eradication program by applying double vaccination of wild boars, and destruction of high risk small pig farms, often illegal, which exist near smaller towns and use garbage depots for feeding (in Varna, Bourgas, Yambol areas). The vet office committed to completely shut down these farms by the end of 2007. Reportedly, the black market for vaccines has shrunk. In late 2006, the pork industry strongly supported the eradication program. Despite these efforts, the EC vets think it is still early to allow Bulgarian pork to be traded in the common market. Due to the latest outbreak in January 2007, it is likely that the EC may decide to extend the ban on Bulgarian pork.

Current Status

Following the EC decision, the Bulgarian vet office created an action plan for gradual approval of meat/dairy establishments throughout 2007. According to the new application procedure,

plants should be first inspected and approved by local vets, and a subsequent inspection and approval is done by the EC vet office (FVO). This way, the FVO is auditing both the work of government vets and plants.

The first FVO inspection is planned for January 22 until February 9. Due to a short period for applications, only seven meat and dairy plants applied. Startled by stringent EU requirements, 29 of total 60 EU licensed companies reported no desire to be inspected by the FVO. These plants worsened their safety system and were not re-approved by the Bulgarian vet office in early 2007. Seven out of these 60 companies declared a desire to export to Russia. Russian vets are likely to visit the country soon, following EU inspectors.

At the end of 2007, those who have not been inspected and approved by FVO must stop operations. There is concern that many plants would prefer to apply for inspections in the second half of 2007. This may create a significant burden for both local and EC vet offices, exceeding their capacity, which in turn may have negative results for Bulgaria.

Russian issue

The EC decision came in the midst of Russian-Polish and Russian-EU talks on meat trade. Russian officials used the entry of Romanian and Bulgarian meat and dairy products on the EU market as one of the arguments to limit EU meat exports referring to food safety of products from these new EU members. This led to various speculations in Bulgaria that the EU decision had been made under Russian pressure, and not on fair evaluation of food safety practices in Bulgaria. Although this view was not widely shared by industry and veterinary experts, some politicians exploited it in their public statements.

According to the CVO, no official requests or complaints have been submitted by the Russian vet office to Bulgaria. The Bulgarian vet office has found some of the Russian arguments illegitimate since Russia has not eradicated swine fever and is still vaccinating pigs.

Meat trade and imports from third countries

On December 11, the EC also made a decision providing a grace period for imported meat stocks from non-EU approved establishments of third countries and available on January 1, 2007, to be fully used/consumed only on the domestic market until end-2007. These stocks are not allowed for processing and trade on the common market.

This decision was good for the local meat industry which operates on a meat deficit market. On the other hand, some high level officials claimed that the EC trade ban on Bulgarian origin meat/dairy products was related to the extra high stocks of imported meat from third countries. Most imported meat was beef and turkey, products which are assumed to have higher prices in the EU. Allegedly, official vet data about meat stocks from third countries was underreported and the EC inspectors found additional stocks during their inspection.

Some representatives of the administration and processing industry tried to blame meat traders for the EC decision. There was talk that if Bulgaria had banned imports from third countries earlier (in October 2006, like Romania) and had not extended import period until the accession date, the EC decision may have been positive. These opinions were indirectly targeted at the U.S., Canada and Brazil which had insisted on having their bilateral import terms kept until the accession, as had been negotiated in previous bilateral trade agreements, and in line with WTO rules.

Trade impact

Many experts comment that the real challenge of the meat and dairy industries is the lack of raw materials for processing, not export licensing.

Meat Industry

Over the last several years, Bulgaria has been a net importer of pork, beef and turkey for processing (see the attached trade table). Bulgaria does not produce turkey, has small production of beef (from dairy herds), and insufficient pork supply. Most domestically produced pork is sold for fresh consumption. According to industry estimates, 70 percent of meat in local processed products comes from imported meat. The industry consumes 150,000 MT of red meat annually of which about 50,000 MT is local meat. Total meat imports (red and white meat) in 2005 were 130,000 MT of which 50,000 MT of beef; 35,000 MT of pork and 44,000 MT of poultry, mainly turkey (source: Bulgarian Customs data). Meat industry estimates the need for local pork at three times higher than the current production.

In 2007, local meat, pork and beef, are likely to be more expensive due to record high feed grain prices. Less expensive beef and turkey imports from prior to 2007 have to be substituted with more expensive EU beef and pork, due to local shortages. Currently, most traders/importers are preparing to expand their EU trade instead of applying for non-EU origin meat import quotas. This will further increase meat products production costs.

Meat processors understand that they will be successful in the common market only if they trade unique local products (such as so-called lukanka). These products, however, are made from pork and require raw product drying (not heat treatment). Thus, the EU decision caused most processors to seek supply of EU-origin pork to secure a market for their finished products. The new classical swine fever outbreak as of January 17 may further extend the ban on local pork for after September 2007. In this case, the demand for EU-origin pork will continue to grow.

In 2007, the meat industry will be squeezed between growing EU competition and increasing cost for meeting the food safety standards and investments repayment. Since local products will be traded only locally along with increased and less expensive supply from the EC (no import duties), competition is likely to be tougher. Both meat and dairy associations estimate that not more than 65 percent of current plants will be able to survive, either due to competition pressure, or due to inability to introduce EU norms. Thus, new acquisitions and mergers are likely, as well as possible decline in the volume of domestic production.

Dairy Industry

The major issue, the lack of standard and quality fresh milk, will remain in 2007, regardless the number of approved for exports dairies.

According to experts' estimates, the volume of quality/standard milk is not more than 20 percent – 30 percent of total milk. In addition, milk collection stations, lack of cooling tanks and efficient quality control remain the weakest link in the milk chain. This leads to slow milk delivery to processors. Due to the milk shortage, a typical dairy collects milk from on average 25 collection points.

Currently, standard milk is produced by 28 percent of dairy cows at 900 farms with over 50 cows each, out of total 120,000 farms. Still, 45 percent of cows are in rural houses (farms) with 1-2 cows. Small farms (1-2 cows) have a grace period until the end of 2007 by which they have to move out beyond the boundaries of the residential areas, thus the likely result is that these cows will be sold and/or slaughtered. Current domestic support programs do

not cover farms with less than 15 cows; the new quota system also makes ineligible farms with less than 10 cows.

These changes are likely to lead to further accelerated concentration in the dairy sector but also to reduce the milk supply in 2007. Due to active Greek investors, the demand for quality fresh milk in 2007 will be tighter. As a result, local dairies will be forced to increase their ex-farm prices and may lose their competitive advantages. A possible solution might be imports of fresh milk from Poland, Germany, Romania (or Macedonia) where prices are comparable. Thus, the drop of import duties for milk powder and whey (15 percent and 64 percent) is likely to make imports of these products more attractive as fresh milk substitutes.

Finished dairy products exports in 2006 grew and according to industry sources; total annual exports were 10 percent higher than in 2005 (18,800 MT), or close to 20,000 MT. About 95 percent of dairy exports were cheeses. In 2007, however, dairies will face increased competition from EU cheeses where imports are likely to grow in volume and be less expensive due to elimination of duties (25-30 percent). EU cheeses show a general tendency to decline in price due to declining intervention prices, and subsequent reduction in fresh milk farm prices, while local cheese costs will be trending higher as a result of milk shortages, and climbing expenses in food safety and labor. The restructuring of the industry and transition to the quota system, along with expected milk shortages may restrict cheese exports.

Table 1. Meat and dairy trade, 2005 and 2006, Bulgarian Customs data, January - August

	Meat Trade (red and white meat), MT		Dairy Trade, MT	
	2005	2006	2005	2006
Exports	10,557	11,076	12,237	9,617
Imports	84,599	89,175	14,342	14,980
Source: MinAg web site, based on Bulgarian Customs data				