USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Voluntary Report - public distribution

Date: 5/8/2007

GAIN Report Number: BU7009

Bulgaria

Grain and Feed

EU accession impact on the grain and oilseeds sector. Update

2007

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Report Highlights:
Grain and oilseeds markets slowly adjust to new changes as a result of Bulgaria's EU accession. Implementation of EU model grain intervention policies are currently a major challenge for the government and industry, due to lack of experience and various political conditions.

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

Grain Intervention in the context of EU membership...3
Grain stocks 4
Planting seeds new regulation 4
Oilseeds and products market changes...4

Grain Intervention in the context of EU membership

In 2007, Bulgaria did not eliminate the old grain intervention government structure based after a socialist model, called a State Reserve. Since 1990, this agency was fulfilling two roles in the grain sector – to keep the military and emergency stocks; and to execute market grain interventions. Since late 1990s, the State Reserve has intervened through the 3 local commodity exchanges, in volumes up to 150,000 MT- 200,000 MT per year. These interventions were not always successful, and were criticized for a lack of transparency. So-called emergency stocks had to be replaced almost every year and these deals were usually done under vague terms.

In February, the Interagency GOB group in charge of the State Reserve Agency allowed replacement of 96,847 MT from 2004 grain crop. The decision was taken despite Ministry of Economy objection due to the fact that the State Reserve had not refilled yet 85,000 MT of wheat sold in 2006. As a result, the State Reserve decided to sell directly 45,000 MT and to refill (replace) another 50,000 MT.

In March, the State Reserve offered 50,000 MT of wheat for sale on the market through 3 local commodity exchanges. Sell prices were above the market prices (147 Euro/MT vs. FOB Black Sea price of 145 Euro/MT) and chances for actual purchases were bleak. The most alarming, however, was the unclear sales conditions which did not specify if wheat had to be replaced later in the year with the same or little higher quantity from the new crop, as has been the practice to date, or to sell it as a regular commercial deal. Finally, a newly registered grain company purchased the total wheat quantity under unclear terms. According to some traders, this wheat will be most likely exported. The buyer may/may not procure the same quantity from the new wheat crop and return it to the State Reserve in post-harvest time (at much lower prices).

This non transparent deal (and alleged red tape practices related to it) violated two major laws, the Law for the State Reserve and Military Stocks, and the new regulation about the Grain Intervention Agency which started operation on January 1, 2007. Currently Bulgaria has two state grain bodies which operate with government stocks. Although not defined by the GOB as an intervention, the State Reserve sales or purchases are de facto an intervention policy not in line with the EU intervention regulations.

The grain industry is concerned that if similar non transparent and illegal sales of state stocks continue, the EU type intervention will be compromised. The State Reserve Agency continues to not provide any public data about its stocks which creates unstable and unpredictable market environment. In April, the Union of Millers notified the Prosecution office about the questionable wheat sale which, according to Union's estimates, caused at least 1.5 million Euro loss to the state budget. In addition, the buyer of State Reserve stocks was a company which was not registered as a grain trader, as required by the law, and the sales terms did not allow for participation of more than one buyer. In late April, some media described the above described grain sale as a part of a bigger political corruption scandal.

Despite industry actions and appeals, the GOB did not respond either on the legitimacy of State Reserve actions or on its future intentions. Moreover, in mid April, the State Reserve and the Ministry of Agriculture made an official joint statement that the State Reserve will purchase over 200,000 MT of 2007 wheat crop. At the same time, the Ministry declared its plans to buy another 500,000 MT of wheat through and the EU type intervention agency. Due to high intervention quality requirements, however, the State Reserve purchases seem more realistic. This will close the door to the EU intervention model implementation.

Grain stocks

In mid April, the Ministry of Agriculture announced its official data about available grain and sunflower stocks (as of end-March) in country (at public warehouses and licensed grain storage facilities). The State Reserve stocks were not revealed. The data included as follows:

411,000 MT of wheat (162,000 MT at public warehouses, 118,000 MT at grain storage facilities, and 131,000 MT at other storage); 35,000 MT of barley; 171,000 of corn; and 154,000 MT of sunflower; total grain and oilseeds stocks of 776,000 MT.

The Ministry of Agriculture has decided to establish a working group to draft a new regulation which will oblige grain traders to report their sales at the EU market. The Ministry is concerned that with the elimination of Customs statistics, it will not be able to collect accurate and timely information about grain trade which may jeopardize the grain balance policies. Local grain consumers (mainly mills) which never worked on a fully liberalized market, appealed for a stricter control on trade so that most wheat is not sold out of Bulgaria at post-harvest time at lower prices. The industry is concerned that the open market may lead to a situation when wheat will become short and significantly more expensive, so that local processed grain products (mainly bread) may lose their competitiveness, and sales would decline.

Planting seeds new regulation

In late March, Bulgaria adopted EU regulation regarding planting seeds production, distribution and trade, and the EU variety list. Local authorities have to inspect twice monthly traders who offer planting seeds on the market. Storage facilities, seed treatment facilities and retail outlets also will be inspected. Crops produced from non certified seeds will not be allowed entry on the market. Farmers who use seeds or planting materials not allowed by the Law will not be eligible for subsidies. These sanctions will be valid also for farms which use their own seeds which do not meet EU standards.

The new rules are expected to have a significant negative effect on semi-market farms; instead of accelerating their development towards market oriented farms, it most likely will push them off the market.

According to Bulgarian authorities, although Bulgaria and Romania acceded to the EU at the same time, Romania still does not have the right to sell its corn and sunflower planting seeds on the EU market. Therefore, authorities warn local farmers to not buy Romanian corn and sunflower seeds.

Bulgarian planting seeds producers are able to meet the market demand, as overall imports account for less than 50 percent of the market. However, more progressive and larger farmers prefer to buy imported seeds due to their premium quality. Challenges related to local seed production are the lack of innovative research, lack of qualified staff, and developed infrastructure and resources for variety testing. For this reason, the longer term trend is for the replacement of locally produced planting seeds by rising imports.

Oilseeds and products market changes

In late March, Uniliver announced its plans to stop manufacturing of margarine under the brand Kaliakra in Dobrich, Bulgaria and to move it to its newly built facility in Ploesht, Romania. This way, Kaliakra will be the first Bulgarian food brand produced outside the country. Since 2003 when Unilver acquired this production facility, the annual production was around 12,000 MT. According to local studies, Uniliver has about 55 percent market share, and a large Bulgarian company (Bella group) accounts for another 40 percent of the margarine market. Imported margarine has 5-6 percent market share, mainly due to 40 percent higher prices.

Uniliver's decision was interpreted negatively by the local and national authorities. The local municipality was concerned about a 100 lost jobs and corporate taxes. Some experts commented on this decision as an indication of unfavorable business environment. Both industry players and most politicians, however, understood that the common market offered competitive investment conditions in Member States(lower corporate and local taxes, less expensive or higher qualified labor, lack of corruption pressure) and the GOB had to put more efforts int o attracting and retaining foreign companies looking to operate in the country.

The news was good for the major local competitor, the Bulgarian Bella group, which claims to be a leader in low-fat margarine segment. Low-fat type margarines account for 46 percent of the margarine market and 73 percent of this segment is hold by Bella group (Tomi and Flora brands). At the high-fat margarine segment, Uniliver is a leader, followed by Bella with 25 percent share. Now the local manufacturer is ready to expand and take at least 15 percent more market share.