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Bulgaria

Dairy and Products

EU accession impact on the dairy market. Update 2007

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Report Highlights:

Dairy market slowly adjusts to the new EU environment. The major challenges to the industry remain supply of quality milk, limited access to the EU market, and implementation of EU regulations in dairy breeding which face certain political conditionality. The presence of Greek investors in the dairy sector has rapidly increased.

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Legislation

The new Livestock Law is currently being considered by the Parliament. The Law is a comprehensive document which aims to fully harmonize local legislation with the latest changes in the corresponding EU regulations. One of the major concerns in the law remains the role and functions of the current Agency for Selection and Reproduction in Animal Husbandry. Although a number of local regulations in late 2006 prohibited commercial activities (government sales of genetic materials and breeding livestock), the Agency continues to misuse its monopoly and dumps low quality product on the market, thus competing with the private sector. At the same time, the Agency continues to execute control over breeding activities and refuses to transfer this responsibility to the breeding organizations. U.S. companies have a significant and growing share of the market for imported dairy cattle genetics.

National dairy farming development program

In late March, the Ministry of Agriculture approved a national program for the development of the dairy sector. The program outlines the government policies and support for the sector in 2007-2009.

There are several priorities in the program:

- Improvement of milk quality;
- Support for the development of the dairy quota system;
- Support for progressive large dairy farms vs. small semi-subsistence farms.

If approved, the program will allocate close to 25 million Euro for 2007 for the support of the dairy sector.

Milk quotas

In April, the National Dairy Board approved 2007 milk quotas. Reportedly, total 97,000 farmers with 339,000 cows have applied for 942,000 MT of milk deliveries and 78,800 MT direct sales. The biggest was the group of farmers (74,000) who applied for 809,000 MT milk deliveries. In 2006 when the milk quotas were introduced only as a pilot project, the number of farmers was higher, 117,000, for less milk - 854,000 MT of milk deliveries and 78,700 MT direct sales.

Data about the milk quotas is not publicly available: processors do not know what is the milk quota of their suppliers; it is not known how much of the quota is already used, and overall monitoring is still very inefficient. There are only 3 labs authorized to make milk quality tests and their capacity is far below the necessary amounts of required tests for the milk quota.

Although there are no milk quality requirements related to quotas, farmers who have sufficient allocations but are not able to supply the quality milk to processors may not be able to fill their quotas. The majority of processors refuse to buy sub-standard milk in order to keep the EU and local market open for all dairy products they produce. Thus, market demand is expected to be the most important driving force for milk quality improvement.

Based on the above statistical data for 2006 and 2007, the Ministry of Agriculture requested from the EC to change the proportion of milk deliveries and direct sales within the quota. Since for the last two years farmers did not apply for more than 90,000 MT direct sales, it is obvious that this is lower than the allocated by the EC quota of 257,000 MT, and 167,000 MT

will remain unused. At the same time, investment and enlargement of dairy farms continues and the applications for milk deliveries are to increase and constantly exceed the current EC allocation of 722,000 MT. Therefore, the GOB requested a transfer of 167,000 MT from direct sales to the milk deliveries allocation, thus the amount of the two quotas to be 889,000 MT for deliveries and 90,000 MT for direct sales. It remains to be seen if the EC will approve this request.

Milk quality

The newly established National Association of Dairy Processors (mainly small/medium size facilities) declared its intentions to request from the EC a revision of the current regime for quality of milk and to ask for a 3 years (until 2010) transitional period for smaller milk producers. Although the Ministry of Agriculture has verbally supported this position, no such official request has been submitted yet to the EC.

The new Association intends to follow the grace period policies applied by Poland and Romania for small establishments. According to the Association, the EU quality milk in country is not more than 10 percent (40 percent according to the GOB); about 80 percent of milk is sourced from small dairy farms with 3-4 animals; and small dairies will not be able to meet the safety norms until the end of 2007. The Association is concerned that the dairy industry will not be able to meet milk quality standards by early 2008 (when dairies will have to stop buying the third quality/worst milk), and this will negatively affect dairy exports and the life and business of numerous dairy farmers in rural areas.

The Association plans to request a derogation for sales of cheese made from substandard milk in the EU when the technology eliminates food safety risks (60 days aging, heat treatment etc.). During the requested grace period, the Association will appeal for active state investment policies (75 million Euro) aimed at establishment of milking centers in villages equipped in a way to improve milk quality for small dairy farmers.

In April, some industrial size dairies reduced the purchase prices, from 0.20 Euro/liter to 0.15 Euro/liter, for sub standard milk which led to mass protests in certain rural areas. Most such substandard milk is produced at small size dairy farms where hygiene norms are difficult to apply.

EC approves dairy exports to third countries

In late March, the EC approved Bulgarian request to be allowed to continue exports of dairy products produced before January 1, 2007 and after this date from non-EU standard milk to third countries. Bulgaria exports sheep and goat milk cheeses to the U.S., Lebanon and Australia. In 2006, exports to the U.S. were about USD 12.0 million.

This decision, supported by USDA and FDA through the AgSofia office, extended significant help to the local dairy industry. According to trade sources, cheese stocks destined for exports and produced before January 1, 2007 were at least 3,000 MT. Currently, only a few Bulgarian dairies can produce dairy products that meet all EU standards. Therefore, exports to third countries provide a good market opportunity for the industry.

EU-FVO inspections

In March and April, the EU Food and Veterinary Office (FVO) made its second and third visit to Bulgaria to approve meat and dairy plants to trade on the single market. During March, 7 plants were inspected out of 14 applicants. As a result, all 14 plants were approved, thus

the list of licensed meat and dairy establishments was expanded to 44 facilities. In March, 4 more establishments were added or the list now has 48 facilities.

In late April, DG SANCO and the FVO also updated the food safety and animal health profile for Bulgaria. Considerable progress was registered by the EC. As a result, the Bulgarian Vet Service expects soon the EC to take a positive decision so that the Bulgarian authorities are granted a sovereign right to approve establishments for exports.

Dairy market players

In early April, one of the larger players on the market, the United Milk Company (UMK) was purchased by the Greek group Vivartia for 18.7 million Euro. The UMK is a leader in fresh milk sales (45 percent market share) and ranks third in sales of yogurt. It has two processing facilities in towns of Shoumen and Plovdiv. The major brands are Vereia, Fibela, Vitalakt, Hansko, Rusalka, and Sana. About 10 percent of company sales are outside Bulgaria. The turnover of the company in 2006 was 17 million Euro.

The new owner plans to continue with an active investment and expand its market share. The acquisition is the second large Greek investment in the Bulgarian dairy industry. In 2004, another Greek company invested in a new processing facility with a capacity of 300 MT/day in the town of Sliven. According to experts, Bulgaria is attractive for Greek dairy investors due to its larger milk quota. Local dairy market has grown in recent years with 5-6 percent in value and 2-3 percent in volume annually. The market is dynamic with more than 300 trademarks. Other special features include the dominance of local yogurt (90 percent of fresh dairy products sales); availability of many regional market leaders; and still significant home made production of yogurt and cheeses.