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Product Brief

Bulgarian Spirits Market Overview

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Report Highlights:
The Bulgarian spirits market is in an uptrend. In 2006 the value of U.S. spirits imports rose over 60 percent in January-September compared to 2005. Bulgarian government policy to harmonize Bulgaria and EU regulations will continue to support general economic recovery and will help sustain consumer expenditures. Regulatory changes related to spirits will not negatively affect imports.

Includes PSD Changes: No
Includes Trade Matrix: No
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Sofia [BU1]
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Market Overview

Traditionally Bulgaria occupies one of the leading places in total consumption of alcoholic drinks per head with 90 percent of the population aged over 18 consuming some kind of alcohol. For many years a distinguishing characteristic of national consumption habits has been the preference for spirits, particularly at the expense of wine. One main reason is that consumers favor a very popular locally-produced grape brandy that has been on the tables of virtually every Bulgarian household for years. A second reason is that, unlike in most other countries, the prices of domestic spirits were in the range of those of wine and still equate to six or seven bottles of wine.

The alcoholic drinks industry witnessed a third consecutive year of rising sales in 2005, although growth was more modest compared to the 2003-2004 levels. The value sales grew faster than eight percent in 2005. Growth was nurtured by government policy to bring excise duty rates into line with EU agreed levels by doubling the tax on packaging (eco-tax). Although unit prices rose for all types of alcoholic drinks in 2005, consumer expenditure was also on an upward trend and helped to sustain the growth in value of sales.

Within spirits, one of the best-performing types in 2005 was Irish whiskey, which grew by 5 percent in volume terms. Other types of whiskey including single malt and blended Scotch whiskey, Canadian and other whiskeys are expected to maintain the same sales volumes. Bourbon and Tennessee whiskey sales are growing fairly steadily. Exports of U.S. whiskey in 2003 were USD 1.6 million compared to USD 9.3 million of Scotch whiskey and USD 1.6 million in 2004. In 2005 U.S. exports reached USD 2 million, a 32 percent increase. January-September comparison 2006 to 2005 is USD 2.5 million to USD 1.5 million, a 60 percent increase.

The Market for quality U.S. spirits is showing increasing demand and local company representatives acknowledge the necessity of promotional activities. The Distilled Spirits Council's joint efforts with the FAS office in Sofia in 2005 and 2006 in promotional activities in Bulgaria helped to raise substantially the awareness of U.S. spirits. Jack Daniel's holds a 45 percent share of Bulgarian bourbon imports. For many years whiskey has been considered a premium spirit of limited availability and its consumption was a sign of high social status. It currently retains its exclusive appeal and continues to be purchased as an expensive present. Increasing purchasing power of the middle class allows consumers to buy more expensive American spirits. The image of America in Bulgaria is closely connected to Bourbon and Tennessee Whiskey.

The largest group of consumers of spirits are aged 25 to 35 and reside in urban areas. All the major whiskey brands target young consumers. The ratio of men to women who enjoy drinking whiskey is 60:40, with the demand from women possibly accounting for the greater sales of whiskey in Bulgaria relative to other countries. Finally, purchasing patterns are shifting from consumption at home to restaurants and bars. This is why commercial areas are the central stage for both sales and brand promotions and advertising. For 2007 positive growth is also forecasted.

The internal changes taking place within the spirits industry in the past few years have been dynamic. Vodka and rakia (local brandy) are the most important product types in volume terms and their overall industry performance to a great extent determines the performance of other types of spirits. Sales of rakia, the largest product type within spirits, rose by 2 percent in 2005 mainly as a result of consolidation of sales in the hands of a few large producers, their investment in brand development, and sales promotion strategies. Although still the most popular drink in Bulgaria, rakia has gradually declined over period of 5 years mainly due to rising popularity of vodka among young consumers. The tourism and hospitality industry has been unable to boost rakia sales, the as Bulgarian national drink has failed to make an impression on foreign visitors. Rakia consumption is linked to food and appeals to the older generation, while vodka is more versatile and can be drunk on its own or in a variety of cocktails. This makes it appealing to consumers in different age groups and a popular drink in the growing number of commercial outlets.

Vodka is the second largest product area in spirits after rakia. Vodka's steady performance can be attributed to the consolidation of sales in the hands of small number of domestic producers and large importers, as well as quality and brand recognition. Competition between domestic producers and importers has become very intense, with advertising viewed as a necessity to ensure the success of a brand. Both flavored and non-flavored brands are promoted, which helps to generate interest in vodka as a whole.

In March 2004 the Bulgarian Parliament accepted amendments to the Public Health Act in order to curb the high levels of spirits consumption in the country by limiting the advertising of high alcohol content drinks in the electronic media. Spirits were placed apart from other types of alcoholic drinks with stricter control on public promotion. As of January 2005 direct advertising became strictly forbidden, while indirect advertisements could only be broadcast on radio or TV after 10 pm. The ban on advertising necessitated a thorough revision of marketing strategy for almost every manufacturer and importer. Both importers and local producers have a good understanding of the benefits of marketing. Imported spirits are seriously supported through direct on-site promotional activities in bars and night clubs, merchandising and outdoor advertising. Maxxium, Allied Domecq, Pernod Ricard, Brown Forman and Diageo are very active in promoting their brands and the power of marketing is evidenced by a 37 percent increase of imports in 2005 and over 60 percent in 2006 January-September.

The market share of imported spirits is 5 percent of total volume of alcohol. Consumption averages 7 liters per capita annually.

Forecast Performance

The elimination of import duties on spirits following Bulgaria's 2007 entry to the EU will be followed by reduction in prices. This is expected to help foreign brands. Prices of Bulgarian locally produced spirits will experience the greatest difficulties as they will be subject to new taxes on local production. Consumers of imported products have already committed themselves to paying more for better quality. Importers are very optimistic about the forecast period after 2006 and expect to see continued strong increases in sales.

The source for figures shown in Tables 1-4 is Euromonitor.

Table 1 Sales of Spirits by Subsector: Total Volume 2000-2005

'000 litres

	2000	2001	2002	2003	2004	2005
Whisk(e)y	2,534.4	2,621.3	2,608.2	2,528.9	2,539.7	2,538.2
- Single malt Scotch whisky	53.0	68.0	69.5	77.0	79.9	79.3
- Blended Scotch whisky	1,507.4	1,525.5	1,466.1	1,314.1	1,204.2	1,183.0
- Bourbon/other US whiskey	342.0	355.0	362.0	378.5	379.0	381.0
- Canadian whisky	49.8	50.7	51.0	56.8	45.0	42.5
- Irish whiskey	135.8	189.3	225.0	290.3	427.1	450.0
- Japanese whisky	-	-	-	-	-	-
- Other whisk(e)y	446.4	432.9	434.6	412.3	404.5	402.4
Brandy and Cognac	2,289.2	2,187.2	2,111.5	2,032.2	2,020.9	1,961.7
- Brandy	2,255.0	2,152.0	2,075.0	1,991.2	1,978.0	1,919.4
- Cognac	34.2	35.2	36.5	41.0	42.9	42.2
White spirits	20,191.4	20,442.1	21,763.7	20,567.8	20,037.7	20,087.4
- Gin	1,264.5	1,249.1	1,226.8	1,023.4	1,029.3	1,025.0
- Vodka	18,926.9	19,193.0	20,536.9	19,544.4	19,008.4	19,062.4
Rum	131.2	130.4	131.0	95.6	93.0	100.2
- White rum	131.2	130.4	131.0	95.6	93.0	100.2
Tequila (and mezcal)	60.6	63.3	65.9	62.2	46.0	43.1
Liqueurs	729.4	828.7	860.9	890.0	700.7	685.5
- Cream-based liqueurs	69.0	78.0	85.0	90.9	92.4	91.5
- Bitters	0.4	0.7	0.9	1.1	1.2	1.0
- Other liqueurs	660.0	750.0	775.0	798.0	607.0	593.0
Other spirits	31,277.0	30,320.0	29,988.0	29,153.9	28,270.6	28,790.7
- Aniseed-flavoured spirits	2,245.0	2,350.0	2,378.0	2,353.9	2,325.8	2,388.0
- Rachiu/Rakia	29,032.0	27,970.0	27,610.0	26,800.0	25,944.8	26,402.7
Spirits	57,213.2	56,593.0	57,529.3	55,330.5	53,708.6	54,206.9

Table 2 Sales of Spirits by Subsector: % Total Value Growth 2000-2005

% local currency, current value growth

	2004/05	2000-05 CAGR	2000/05 TOTAL
Whisk(e)y	1.7	5.9	33.2
- Single malt Scotch whisky	-2.0	13.5	88.4
- Blended Scotch whisky	-0.4	0.2	1.1
- Bourbon/other US whiskey	2.2	7.2	41.7
- Canadian whisky	-17.3	-1.0	-4.8
- Irish whiskey	8.3	31.1	287.7
- Japanese whisky	-	-	-
- Other whisk(e)y	7.7	4.1	22.3
Brandy and Cognac	6.3	3.4	18.2
- Brandy	7.0	2.7	14.1
- Cognac	2.1	8.9	53.5
White spirits	24.9	11.9	75.3
- Gin	7.7	1.6	8.2
- Vodka	25.8	12.5	80.4
Rum	15.7	3.9	21.0
- White rum	15.7	3.9	21.0
- Dark rum	-	-	-
Tequila (and mezcal)	-12.0	0.8	3.9
Liqueurs	-1.2	3.3	17.8
- Cream-based liqueurs	-0.6	10.4	63.7
- Bitters	-13.7	22.3	173.2
- Other liqueurs	-1.4	0.2	1.0
Other spirits	13.3	6.6	37.7
- Aniseed-flavoured spirits	12.3	8.9	53.3
- Rachiu/Rakia	13.4	6.4	36.4
Spirits	14.7	8.2	48.1

Table 3 Forecast Sales of Spirits by Subsector: Total Volume 2005-2010

'000 litres

	2005	2006	2007	2008	2009	2010
Whisk(e)y	2,538.2	2,524.5	2,541.5	2,571.7	2,610.6	2,653.5
- Single malt Scotch whisky	79.3	79.4	81.1	82.9	84.8	86.7
- Blended Scotch whis ky	1,183.0	1,172.6	1,185.2	1,201.0	1,216.2	1,231.4
- Bourbon/other US whiskey	381.0	377.9	374.6	377.6	381.9	386.9
- Canadian whisky	42.5	42.1	42.0	42.2	42.5	43.0
- Irish whiskey	450.0	464.4	480.1	497.0	513.6	529.0
- Japanese whisky	-	-	-	-	-	-
- Other whisk(e)y	402.4	388.1	378.5	371.1	371.6	376.5
Brandy and Cognac	1,961.7	1,941.2	1,917.3	1,892.8	1,872.0	1,852.3
- Brandy	1,919.4	1,899.3	1,875.6	1,850.3	1,828.7	1,807.6
- Cognac	42.2	41.9	41.7	42.5	43.4	44.7
White spirits	20,087.4	20,329.6	20,610.5	20,877.2	20,672.4	20,485.0
- Gin	1,025.0	1,020.9	1,018.9	1,024.0	1,033.9	1,042.9
- Vodka	19,062.4	19,308.8	19,591.6	19,853.2	19,638.5	19,442.1
Rum	100.2	101.3	101.8	101.4	101.6	101.2
- White rum	100.2	101.3	101.8	101.4	101.6	101.2
Tequila (and mezcal)	43.1	42.3	41.6	41.9	42.0	42.2
Liqueurs	685.5	676.6	672.1	670.0	669.2	670.3
- Cream -based liqueurs	91.5	92.6	93.8	95.2	96.9	99.1
- Bitters	1.0	1.0	1.0	1.0	1.1	1.1
- Other liqueurs	593.0	583.0	577.4	573.8	571.3	570.2
Other spirits	28,790.7	28,837.2	28,875.5	28,673.6	28,280.7	27,845.8
- Aniseed-flavoured spirits	2,388.0	2,389.9	2,402.6	2,375.3	2,358.8	2,350.2
- Rachiu/Rakia	26,402.7	26,447.3	26,473.0	26,298.3	25,921.9	25,495.6
Spirits	54,206.9	54,452.7	54,760.4	54,828.7	54,248.5	53,650.3

Table 4 Forecast Sales of Spirits by Subsector: % Total Value Growth 2005-2010

% local currency, constant value growth	2005-10 CAGR	2005/10 TOTAL
Whisk(e)y	2.0	10.3
- Single malt Scotch whisky	1.9	9.8
- Blended Scotch whisky	1.8	9.2
- Bourbon/other US whiskey	1.1	5.9
- Canadian whisky	1.0	5.3
- Irish whiskey	3.8	20.4
- Japanese whisky	-	-
- Other whisk(e)y	-0.6	-3.0
Brandy and Cognac	0.2	1.0
- Brandy	-0.2	-0.9
- Cognac	2.5	13.1
White spirits	1.9	9.9
- Gin	1.3	6.6
- Vodka	1.9	10.1
Rum	1.8	9.6
- White rum	1.8	9.6
- Dark rum	-	-
Tequila (and mezcal)	-0.2	-0.8
Liqueurs	2.2	11.5
- Cream -based liqueurs	2.2	11.6
- Bitters	4.3	23.5
- Other liqueurs	2.2	11.4
Other spirits	3.4	17.9
- Aniseed-flavoured spirits	1.9	9.7
- Rachiu/Rakia	3.5	18.7
Spirits	2.4	12.8

Duty Free

Duty free is relatively insignificant in terms of total sales of alcoholic drinks in Bulgaria. Nonetheless, foreign visitors make most of their purchases at duty-free shops. The duty-free channel is also allegedly used for some of the parallel imports and tax evasion, especially for cigarettes and premium spirits. According to unofficial estimates, these activities incur annual losses to the state budget of $32 million in unpaid excise taxes and VAT.

To prevent such practices, the Bulgarian Government forced manufacturers to put a special label stating "For duty free only" on all alcoholic drinks from July 2002. Nevertheless, this measure did not manage to halt the sale of duty-free goods filtering onto the market in Bulgaria. The measure to start closing duty free shops, supposed to commence in July 2003, was intended to curb parallel imports. However, this action was postponed for three years and is likely to be delayed by up to 10 years. The only change has been the improved control of shops and the pressure to bring outlets into line with EU standards.

In 2005, 49 shops operated alongside major borders and in airports. With Bulgaria's entry into the EU in 2007, much of the duty-free trade will be abolished and duty-free shops will then only be found at international airports and train stations. The expectations are that these shops will continue to operate along the borders with non-EU members. The largest duty-free turnover is in fact generated at Kalotina, which is on the Bulgaria-Serbia border.

Distribution

Until the late 1990s' the retail market for distilled spirits was extremely fragmented. In the Last 7 or 8 years the rapid development of commercial retail outlets such as major grocery stores, hypermarkets and malls, along with growth in the number of private kiosks, small shops and neighborhood stores, have stimulated sales of all products, including distilled spirits.

For imported drinks considered to be premium products in Bulgaria, sales in commercial areas are of crucial importance. Some brands are almost exclusively distributed via wholesale distribution channels. This includes Absolut Level vodka which is distributed 20 selected commercial outlets. It also applies to liqueurs, such as Cointreau, which has a 70-80 percent commercial presence. Flavored vodka also has a greater presence. For economic reasons, Bulgarians prefer cheaper alcohol at home, but opt for premium brands when going out.

The increasing consumption of beer, especially in the summer months, has been a barrier to stronger growth in sprits. Beer often replaces spirits in bars, as it is more affordable and increasingly sold on draught. In addition, the number of locally produced imported brands at lower prices that are attractive to consumers is growing every year.

The distribution channels are very important in terms of new product development, especially for promoting new imported products. Promotions will be increasingly on-site in grocery stores and hypermarkets, as most producers are already looking at in-store advertising, following the ban on spirits advertising in the electronic media introduced in 2004. This is also crucial for communicating innovative types of alcoholic drinks consumption, such as long cocktail drinks with vodka, bourbons, liqueurs and special rum-based cocktails. In this way, the distribution channel will help to rejuvenate ranges within spirits that are otherwise neglected by consumers.

Independent food stores continue to be the leading channel of distribution with a share of 46 percent of total volume sales of spirits. Small, mostly family-owned shops are the most important channel for the distribution of economy brands. Their prevalence is also explained by the convenience factor, with consumers finding it easier to shop in a local convenience store.

Specialist outlets dedicated only to sales of alcoholic drinks (spirits, wine and beer) are rapidly emerging in large cities and expanding to the rest of the country. They offer a wealth of choice of premium imported brands and rare, hard-to-find varieties, such as certain liqueurs. Significantly, they also offer a guarantee of quality, a key factor in Bulgaria.

For this same reason, the share of supermarkets/hypermarkets has also grown for spirits from 22 percent in 2000 to 34 percent in 2005. Guarantees of the origin and quality, as well as a good selection and variety of products, underpin growth of this channel.

The other channels have maintained at a share of 20 percent of off-trade volume sales during the last three years. This includes premises such as kiosks and shops for alcoholic and soft drinks, snacks, confectionery and cigarettes. Their share, however, has seen a gradual decline mainly as a result of the growing importance of other forms of distribution. Nevertheless, it is still significant, mainly due to the convenient location of kiosks and small shops in local neighborhoods.

Legislation

Bulgaria negotiated with the EU a gradual rise in excise duty rates until 2011, when the ceiling will be reached. Until the end of 2007 excise duties will not be changed and at the beginning of 2008 the first small increase will be made. The packaging tax will also rise by steps each year until 2011.

The most important factor determining the direction of governmental policy and legislation with regard to alcoholic drinks is Bulgaria's EU membership, on January 1st, 2007. The Bulgarian Government has already launched a process of harmonization of excise duties with the minimum levy as set by the EU.

The Government is preparing some fundamental changes to the overall structure of administering the excise system. To prepare for accession to the EU and free movement of goods, the law for Excise Duties and Bonded Warehouses was implemented July 1, 2006. Alcoholic drinks and other excise goods will only be available in these excise warehouses, which means that producers and traders have to gain excise warehouse status. The rights of excise duty collection are transferred from the tax authority to the Customs administration. The right to collect excise on some goods within the territory of Bulgaria will add to Customs' responsibilities of collecting duties on imported goods. The restructuring is expected to bring improvements in the monitoring and circulation of excise goods domestically and from the warehouses to the borders for export.

Ordinances were issued by Ministry of Finance dated October 23, 2006 concerning new samples of strip stamps to be valid as of January 1st, 2007 for bottled alcoholic drinks for sale in licensed duty free zones and commercial areas. A grace period until June 30, 2007 is implemented for strip stamps by previous Ordinance of 2003.

Required requisites for new samples for strip stamps are:

For use in duty free zones:
- inscription DUTY FREE and ALCOHOLIC BEVERAGE
- hologram band size 15/7 mm
- color blue-red
- size 15/150 mm
- initials MF
- serial number - 2 letters
- number - 8 digits

For use in commercial areas
- inscription EXCISE STRIP STAMP
- size 15/150 mm
- color - brown-blue
- hologram band size 15/7 mm
- quantity of alcoholic drink in digits
- initials MF
- serial number - 2 letters
- number - 8 digits

Labeling

Labels must contain the following obligatory information in the Bulgarian language:

- Imported drinks must be labeled with the same name as given in the country of origin. In case the name is not definitive enough itself, explanatory definition must be provided;
- Trade mark;
- Name and address of producer;
- Name and address of importer;
- List of ingredients and supplements;
- Packaging material;
- SKU size (packaging size) - quantity up to 1 Liter - in ML, over 1 Liter - in L;
- Storage conditions.

Importation documents required in Bulgaria

- Commercial invoice, issued by exporter;
- Packing list;
- Free sale document (attestation), issued by certified U.S. laboratory, published in Bulgarian State Gazette;
- Origin analysis certificate, issued by certified U.S. laboratory;
- Quality and Health certificate issued by certified U.S. laboratory;
- No bulk alcoholic drinks are permitted, only in packaging.

Source: U.S. Statistics, Euromonitor, Newspapers Dnevnik, Pari and Monitor, State Gazette and National Statistics