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Report Name: Stone Fruit Annual Report

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Report Highlights:

Post forecasts that Bulgaria's stone fruit crop in marketing year (MY)2019 will decline marginally. Cherry production is expected to decrease due to lower area harvested and lower average yields, resulting from unfavorable weather. Peach supplies are forecast increase due to higher yields following favorable weather in major production regions, as well as an increase in the area harvested. Fresh peach and cherry consumption are forecast to increase due to favorable consumer demand, although demand from cherry processors projected to decline. Cherry imports are likely to grow in conjunction with the decline in the local supplies.

MY2019 Supply and Distribution Forecast

Weather: The 2018/19 winter was mild without heavy snowfall or excessively low temperatures. Spring 2019 weather was favorable during the blossom and pollination periods, although early April frosts negatively affected some stone fruit orchards in the Rousse, Varna, Bourgas, Sliven, and Plovdiv regions. In these locations, losses reportedly reached upwards of 60-80 percent. May and June saw abundant rainfall and hail storms which negatively affected some cherry orchards. Hot and dry conditions prevailed in July and August and may negatively affect peach quality. The peach harvest started earlier than usual due to warm and dry fall weather.

FAS Sofia expects higher peach production at 31,000-32,000 metric tons (MT), based on official data and Post contacts, nine percent more than MY2018. A Ministry of Agriculture (MinAg) weekly report indicates that as of early September, average yields increased by 17 percent and harvested production was up by 15 percent. Cherry (sweet and tart) production is expected to decline marginally due to spring weather-related losses. FAS Sofia forecasts production at 54,000-55,000 MT, down about 10 percent from MY2018. The September MinAg report also indicated that average sweet cherry yields decreased by 15 percent and harvested production by 10 percent.

Supply and Distribution Estimates: September's official weekly data shows a complete harvest for sweet and tart cherries. Despite better results for tart cherries with higher harvested area (11 percent), average yields (10 percent) and harvested production (22 percent), total cherry production (sweet and tart cherries) declined due to the eight-percent decline in tart cherry supplies. Lower stocks drove farm-gate prices $0.50-$0.80/kilogram higher compared to the previous year. FAS Sofia forecasts that imports will offset the decrease in local production, as consumer demand for fresh cherries is projected remain stable to higher in 2019. Cherry processing, however, is anticipated to decline (Table 7).

According to MinAg data, 86 percent of the area planted for peaches was harvested as of early September, with higher reported yields and production. More abundant supply is projected to lead to growth in both fresh consumption and processing but also to smaller imports (Table 6).

MY2018 Supply and Distribution

Supply

Weather conditions in 2018 were mixed and more favorable for sweet and tart cherries and less favorable for peaches. Favorable spring rains helped to boost cherry yields, while dry and hot summer weather negatively affected peach yields.

Areas Planted and Harvested: Due to active investments supported by EU subsidies, stone fruit area planted continued to increase. Sweet cherries accounted for 19 percent of Bulgaria's total planted fruit area at 13,040 HA, of which 77 percent was harvested. The tart-cherry area planted also increased, however only 62 percent was harvested, roughly the same as last season. The combined area harvested for both sweet and tart cherries in 2018 was 12 percent higher over 2017. The peach area planted also increased, but due to weather-related losses, 80 percent was harvested compared to

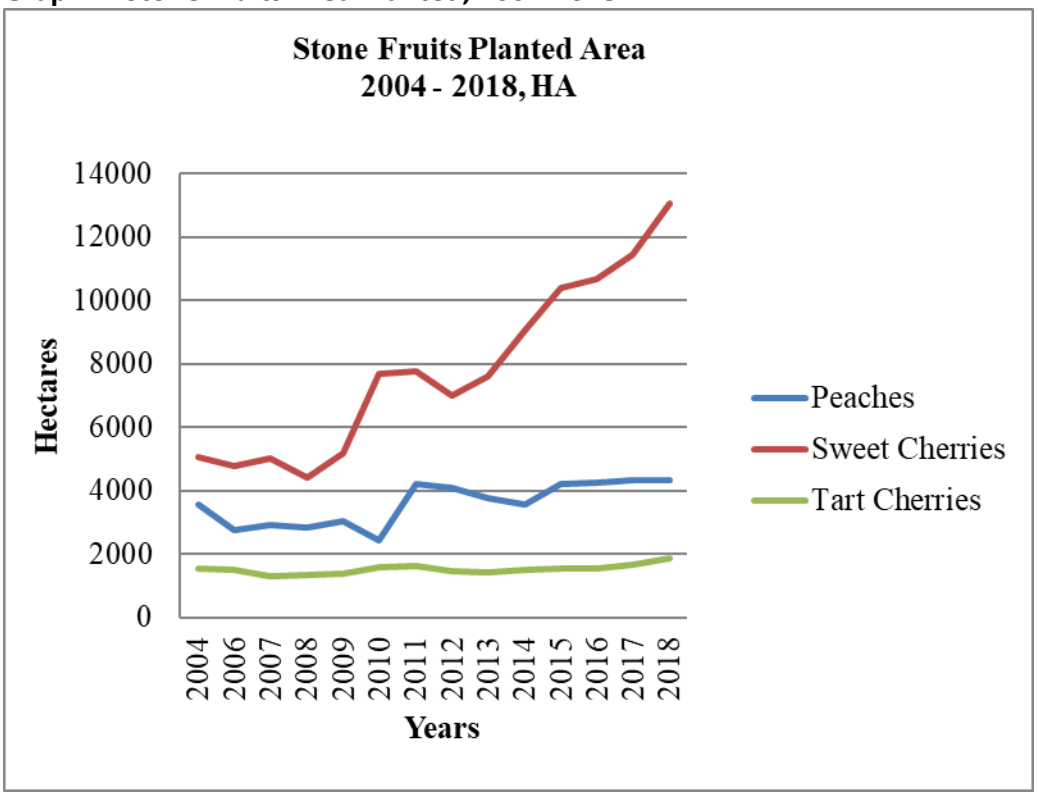
90 percent the previous year. Overall, MY2018 the stone fruit area harvested grew by 5.7 percent over MY2017.

In early 2019, the authorities published the results of 2017 orchards' inventory, which are conducted every five years. The inventory shows total planted peach orchards at 3,457 HA. Peach varieties for processing account for 25 percent compared to 75 percent for fresh consumption. Late varieties dominate with 44 percent share. The most popular variety is Red Haven (18 percent), followed by Halehaven and Glohaven (12 percent each).

In terms of the age structure, peach orchards aged 5-14 years make up the largest share (80 percent), while orchards younger than five years account for nine percent. Most orchards have 600-1,200 trees/HA (62 percent), while more intensive orchards, those with 1,200 trees/HA or more, account for only two percent of total peach orchards.

Also according to the data, there are 12,533 HA of sweet cherry orchards. The most popular variety is Van (33 percent), followed by Bing (16 percent) and Bigaro Burla (nine percent). In terms of the age structure, sweet cherry orchards aged 5-14 years make up the largest share (57 percent) of production, while orchards younger than five years account for 16 percent. Most orchards have 200-500 trees/HA (55 percent), while more intensive orchards, those with 500 trees/HA or more, account for 45 percent of total cherry orchards.

Graph 1: Stone Fruits Area Planted, 2004-2018



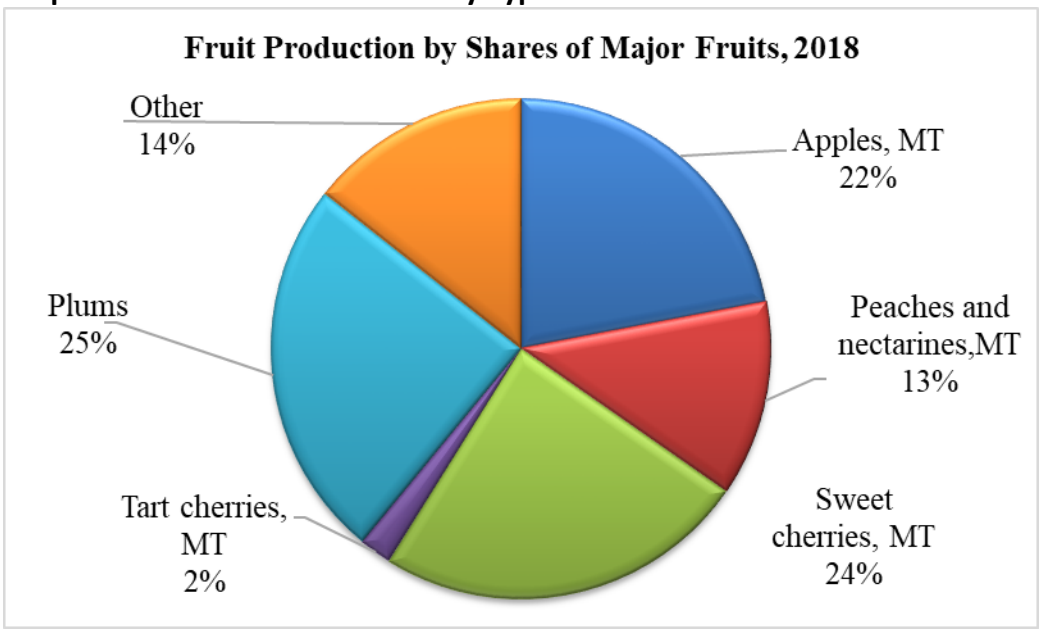
Source: Bulgarian Ministry of Agriculture, Foods and Forests data

Average Yields: More favorable weather in MY2018 increased average sweet cherry yields by 2.2 percent and 5.8 percent for tart cherries. Peach yields, however, declined by 7.7 percent following excellent yields in MY2017 (Table 1).

Because of the increase in area harvested and inconsistent yields among the different commodities, total stone fruit production increased only marginally by 2.2 percent, including 14-percent increase for cherries, and a 16-percent decline for peaches (Table 1). Cherry quality was better, which spurred fresh consumption.

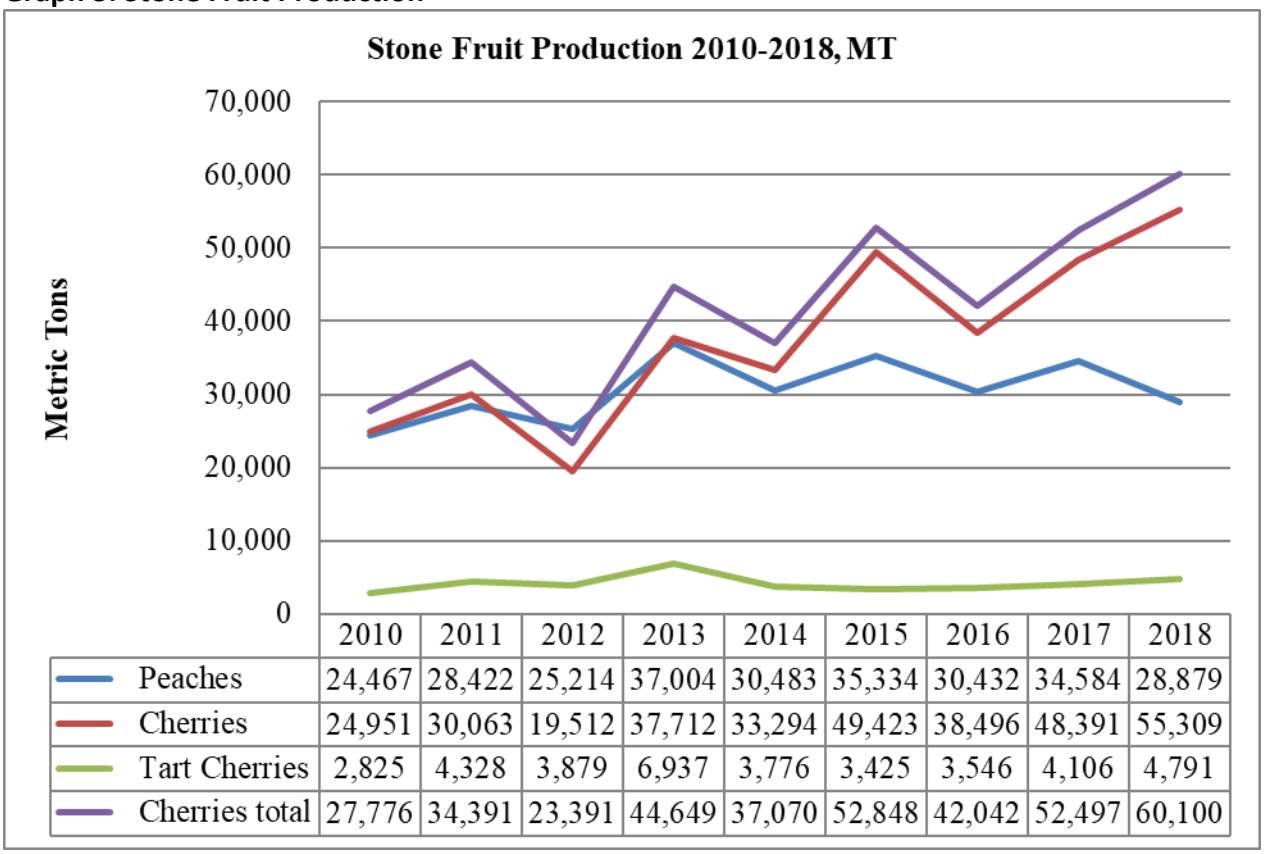
Stone fruits continued to be the largest fruit category accounting for 39 percent of Bulgarian total fruit production (228,500 MT) followed by plums at 25 percent and apples at 22 percent.

Graph 2: Horticulture Production by Type of Fruits



Source: Bulgarian Ministry of Agriculture, Foods and Forests data

Graph 3. Stone Fruit Production



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Peaches	24,467	28,422	25,214	37,004	30,483	35,334	30,432	34,584	28,879
Cherries	24,951	30,063	19,512	37,712	33,294	49,423	38,496	48,391	55,309
Tart Cherries	2,825	4,328	3,879	6,937	3,776	3,425	3,546	4,106	4,791
Cherries total	27,776	34,391	23,391	44,649	37,070	52,848	42,042	52,497	60,100

Source: Bulgarian Ministry of Agriculture, Foods and Forests data

Consumption

Peaches: In MY2018, peaches were the third most-popular raw material among Bulgaria's fruit processing industry, accounting for 14 percent of processed fruit, behind apples (34 percent) and sweet cherries (30 percent). The lower peach crop and higher imports in MY2018 reduced stocks by 16 percent, thereby lowering supplies for processors. This resulted in 24 percent decrease in processed peaches over MY2017 when the industry processed a record high volume (Tables 3, 4 and 6). The share of locally-sourced peaches for processing was 34 percent, versus 66 percent from imports. Compote, peaches in syrup, puree, and juice production dropped by 21 percent compared to MY2017, of which 84 percent was exported to the EU, mainly to Poland, Italy, and Romania (Table 9). Thus the ending stocks of processed product (December 2018) were reported lower compared to the previous year, which is likely to encourage higher volume of peaches for processing in MY2019.

Cherries: Traditionally, sweet cherries and apples are Bulgaria's most popular fruits for processing. In MY2018, sweet cherries accounted for 30 percent of all processed fruits while tart cherries accounted for only four percent. Total sweet and tart cherries for processing were on par with apples for processing (34 percent share for each). Abundant supplies in MY2018 (14 percent higher for local production and 20 percent higher for imports), cherry processing increased by three percent over MY2017 (Tables 3, 4 and 7). 76 percent of processed cherries were locally sourced. Production of

processed cherries increased by about six percent over MY2017. About 68 percent of the processed products like cherry pulp, dried cherries, and jams were exported within the EU (Table 8).

Stone Fruit for Fresh Consumption

Fresh stone-fruit consumption has increased in recent years due to improving incomes and consumer trends toward more healthful products (Tables 6 and 7). Still, fresh consumption remains price sensitive and seasonal. In MY2018 higher cherry stocks, lower prices, and better quality increased cherry consumption over MY2017. Most imported cherries went for fresh consumption. Conversely, lower peach supplies, elevated prices, and quality issues led to a decline in fresh peach consumption.

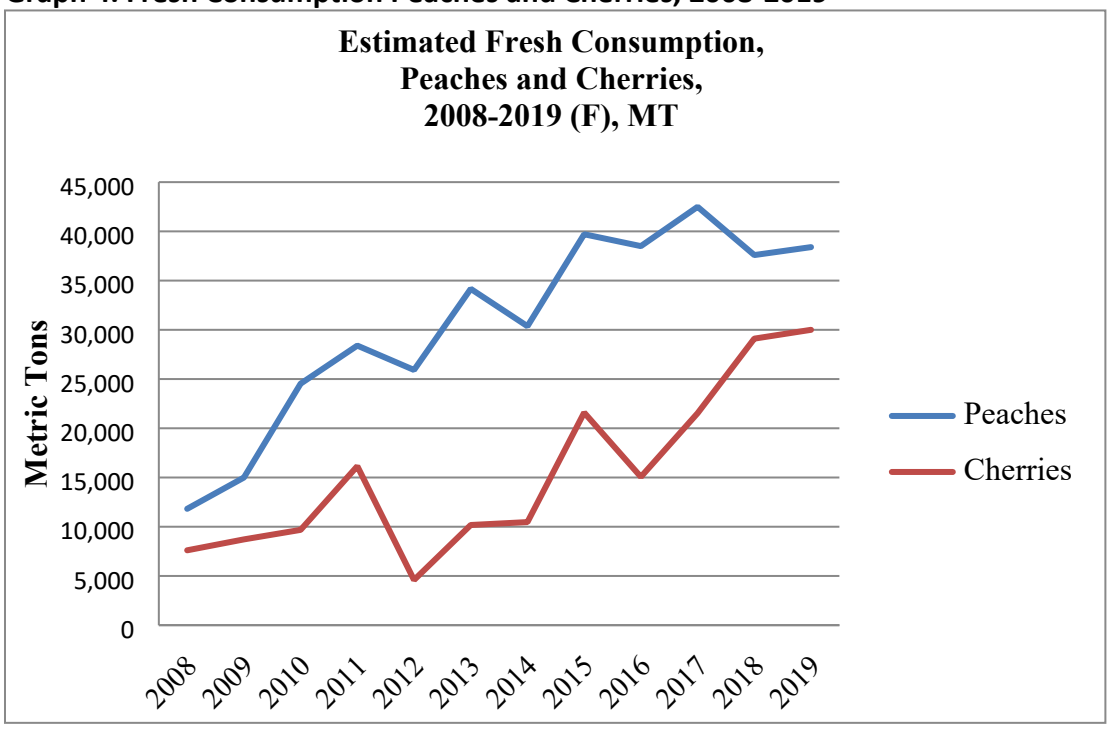
Peaches: FAS Sofia estimates that in MY2018, fresh consumption decreased by 12 percent from the previous year (Table 6). According to national statistics, fresh peach purchases by households decreased from 10 kg/household in MY2017 to 7.1 kg, as consumer prices were 20 percent higher.

In MY2019, peach prices were reported to decrease due to the better local supply. It is expected that lower prices will likely spur higher fresh consumption, which corresponds with FAS Sofia's forecast for MY2019 for a two percent increase in peach fresh consumption (Table 6).

Cherries: FAS Sofia estimates fresh consumption in MY2018 to be 35 percent higher than the previous year (Table 7) and a new record. Cherry purchases by households grew from 2.2 kg/household in MY2017 to 2.3 kg/household in MY2018. Consumer prices declined by four percent year on year.

In MY2019, cherry prices are reported higher due to the lower crop. This will likely limit consumption growth, which FAS Sofia expects will increase only marginally by one percent over MY2018 (Table 7).

Graph 4. Fresh Consumption Peaches and Cherries, 2008-2019



Source: FAS Sofia

Trade

Peaches: In MY2018, peach exports declined by 35 percent due to lower stocks and mediocre quality. Imports also declined by 15 percent, due to a three-percent increase in prices and insufficient supplies from Bulgaria's main foreign suppliers. Greece continued to be the primary supplier with over 93 percent of market share for imported peaches (Table 5). According to MinAg data, about 9,000 MT, or 39 percent of imports, were destined for processing.

Cherries: Fresh cherry exports declined by 20 percent and accounted for only three percent of the total crop. Despite the good crop, favorable consumer demand drove an 11-percent increase in imports. Greece continued to be the major supplier to Bulgaria with 81 percent share.

Agricultural Policy and Domestic Support

Agricultural Policy: In 2017, Bulgaria adopted the 'National Strategic Plan for Operational Programs of Fresh Produce Producers 2017-2021' (GAIN) and recognized the horticulture industry as a political priority. In 2018 and 2019 the authorities increased the level of domestic support and improved the dialogue with the industry. In September 2018, MinAg established a Consultative Council on Fresh Produce which included six industry groups and in April 2019, a new Deputy Minister in charge of horticulture was appointed. Coupled support was outlined as a priority policy for the horticulture industry and the MinAg expressed its official support for an 18-percent increase in coupled support under the new Common Agricultural Policy 2021-2027.

Taxation: In summer 2019, MinAg issued its support for the industry's demand to reverse levying of the value added tax (VAT), similar to the model for the grain producers, processors, and traders. Currently, many domestic processors prefer to buy imported produce from other EU countries (mainly from Greece) since they are not required to pay VAT, which is required to pay when purchasing local produce. At equal farm-gate prices, the VAT payment makes Bulgarian farmers uncompetitive. As per the Minister of Agriculture's statements, only 30-40 percent of local farmers are VAT registered due to small amount of their sales. If adopted, this taxation model will also help to reduce gray market players. As of the end of September 2019, no Cabinet decision on this issue has been taken yet.

Coupled Support Subsidies: Stone fruits are eligible for coupled support subsidies based on area. The budget paid for coupled support for 2018 campaign was at €38 million. In March 2019, MinAg approved eligibility requirements (minimum average yields) for coupled support, as follows: 7.5 MT/HA for peaches and nectarines, 4.7 MT/HA for sweet cherries and at 3.7 MT/HA for tart cherries. Subsidy rates were set at €902/HA for farms up to 30 HA and €601/HA for larger farms.

Crop Insurance: Since 2011, MinAg has applied a special insurance system for horticultural crops through 2020. In October 2018, MinAg increased the programs' budget to compensate for weather-related losses (frost) in areas around Varna, Dobrich, Lovech, Silistra, and Shoumen. Crop insurance is estimated to cover up to €300/HA and is substantially lower than the coupled support. Currently, insurance companies do not cover early frost risk (before April 20), which is usually the most dangerous for orchards. Many farmers express that this type of domestic support is key and are pushing for higher budgets under the program.

Pest Control Program: Bulgaria offers some state aid for orchard pest control expenses per EU Regulation #720/2014. This program pays farmers biannually in the spring and in the fall. In October 2018, MinAg approved a budget of €2.7 million for plant protection chemicals and about 3,000 farmers managing 1,650 HA benefitted from this aid. In 2019, MinAg approved a slightly higher budget of €2.8 million (€1,380/HA) for plant protection chemicals.

Marketing: To support fresh produce marketing, in October 2018, MinAg approved funds (€50,000 for 2019) for GLOBAL GAP certification starting from 2019 through December 2020. The program covers annual farmer expenses up to €600 and up to €2,500 per producer group. In 2018, the retail chain Kaufland spent €125,000 to certify over 20 local farmers out of total 100 who supply fresh produce to the company. In 2019, Kaufland plans to introduce a new program to reduce pesticides residues, similar to an existing program used by Billa, another retail chain.

MinAg increased its budget for direct sales of fresh produce by amending Ordinance 26 in November 2018, thus expanding the direct sales outlets throughout the entire country. Another new program to subsidize investments in small fresh fruit processing (e.g. juice making, drying and freezing fruit, etc.) with a budget of €3.7 million for 2019 and 2020 was approved in early 2019. MinAg will cover up to half of investment costs, not more than €60,000 per beneficiary.

School Program: Since 2017, Bulgaria's school lunch program has included both dairy products and fresh produce. In 2018, the school lunch program was budgeted at 19.5 million leva (€10 million) of which 13 million leva (€6.7 million) was funded under the national budget, with the rest by EU funds. The sub-program for fruits was budgeted with 5.4 million leva (€2.8 million). In October 2018, the Paying Agency approved 183 vendors of fresh produce to 3,511 schools.

In March 2019, the EC allocated to Bulgaria €2.59 million for fresh produce and €1.156 for dairy products (total €3.7 million) for the 2019/20 school year. As noted, school lunches are also supplemented at the national level. In September 2019, several industry groups publicly expressed their concerns that frequent changes in programmatic regulations threaten the program in 2019.

Appendix:

Table 1: Peaches and Cherries Area, Yields and Production, 2014-2019 F

Peaches and Cherries Area Harvested, Average Yields and Production, 2014-2019F						
	2014	**2015**	**2016**	**2017**	**2018**	**2019 F**
Area Harvested, HA						
Peaches	3,139	3,711	3,816	3,893	3,521	3,800
Sweet Cherries	6,256	8,055	8,463	8,989	10,049	9,300
Tart Cherries	958	1,207	1,137	1,074	1,184	1,100
Cherries total	7,214	9,262	9,600	10,063	11,233	10,400
Yields, MT/HA						
Peaches	9.737	9.521	7.975	8.884	8.202	8.290
Sweet Cherries	5.322	6.136	4.549	5.383	5.504	5.380

Tart Cherries	3.942	2.838	3.119	3.823	4.046	4.090
Production, MT						
Peaches	30,483	35,334	30,432	34,584	28,879	31,500
Cherries	33,294	49,423	38,496	48,391	55,309	50,000
Tart Cherries	3,776	3,425	3,546	4,106	4,791	4,500
Cherries total	37,070	52,848	42,042	52,497	60,100	54,500
Stone Fruits total	67,553	88,182	72,474	87,081	88,979	86,000
Source: MinAg statistical bulletins, 2018 is final official data, 2019 is FAF/Sofia forecast						

Table 2: Stone Fruit Average Yields Development, 2015-2018, MT/HA

	Stone Fruit Average Yields Development, MT/HA			
	2015	**2016**	**2017**	**2018**
Peaches	9.521	7.975	8.884	8.202
Sweet Cherries	6.136	4.549	5.383	5.504
Tart Cherries	2.838	3.119	3.823	4.046
Source: Bulgarian Ministry of Agriculture, Foods and Forests data				

Table 3: Commercial Processing of Peaches and Cherries in 2013-2018

Processing of Peaches and Cherries in 2013-2018						
Processed fruits, MT	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Peaches	9,000	12,740	13,090	13,090	18,100	13,820
Sweet Cherries	30,900	24,480	29,960	25,690	29,190	29,190
Tart Cherries	5,100	3,050	2,000	4,090	2,950	3,830
Cherries total	36,000	27,530	31,960	29,780	32,140	33,020
Source: MinAg Bulletin #347/2018, #365/2019						

Table 4: Processing of Peaches and Cherries at Commercial Plants in 2015-2018

Processing of Peaches and Cherries in 2014-2017, MT								
	2015		**2016**		**2017**		**2018**	
	No of plants	Processed raw material	No of plants	Processed raw material	No of plants	Processed raw material	No of plants	Processe raw material
Peaches	25	13,090	23	13,090	25	18,100	22	13,820
Sweet Cherries	34	29,960	29	25,690	32	29,190	33	29,190
Tart cherries	30	2,000	28	4,090	29	2,950	28	3,830
Cherries total		31,960		29,780		32,140		33,020
Source: MinAg Bulletins #290/2016, #332/2017, #347/2018, #365/2019								

Table 5: Trade in Peaches and Cherries, 2012-2018 (January-December) and 2019 (January – June)

Trade in peaches and cherries, 2010-2016 (January-December)								
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Peaches, HS 080930								
Imports	16,673	9,472	15,242	18,366	22,202	27,703	23,625	2,696
Exports	3,964	3,316	2,619	904	1,043	1,695	1,091	278
Cherries, other than sour HS 080929								
Imports	1,520	5,020	1,809	1,540	1,419	1,890	2,363	1,359
Exports	1,192	3,366	1,092	1,579	745	1,041	1,345	705
Sour Cherries HS 080921								
Imports	139	141	502	1,257	2,901	1,636	1,539	309
Exports	202	268	288	514	762	1,310	532	570
PG Cherries, HS 080920, 080929, 080920								
Imports	1,659	5,161	2,311	2,797	4,320	3,525	3,902	1,667
Exports	1,394	3,634	1,380	2,093	1,507	2,351	1,877	1,275
Source: Trade Data Monitor								

Table 6: Supply and Distribution Peaches and Nectarines 2012-2019 Forecast (F)

Peaches	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Harvested Area, HA	4,103	3,753	3,139	3,711	3,816	3,893	3,521	3,800
Production	25,214	37,004	30,483	35,334	30,432	34,584	28,879	31,500
Imports	16,673	9,472	15,242	18,366	22,202	27,703	23,625	22,000
Total supply	41,887	46,476	45,725	53,700	52,634	62,287	52,504	53,500
Exports	3,964	3,316	2,619	904	1,043	1,695	1,091	1,100
Processing	12,000	9,000	12,740	13,090	13,090	18,100	13,820	14,000
Fresh Consumption	25,923	34,160	30,366	39,706	38,501	42,492	37,593	38,400
Total Distribution	41,887	46,476	45,725	53,700	52,634	62,287	52,504	53,500
Note: 2018 data is tentative estimates and 2019 data is forecast by FAS/Sofia								

Table 7: Supply and Distribution Cherries (Sweet and Tart) 2011-2018 Forecast (F)

Cherries	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Area Harvested,HA	8,459	8,937	7,214	9,262	9,600	10,063	11,233	10,400
Production	23,391	44,649	37,070	52,848	42,032	52,497	60,100	54,500
Imports	1,659	5,161	2,311	2,797	4,320	3,525	3,902	4,500
Total supply	25,050	49,810	39,381	55,645	46,352	56,022	64,002	59,000
Exports	1,394	3,634	1,380	2,093	1,507	2,351	1,877	2,000
Processing	20,460	36,000	27,530	31,960	29,780	32,140	33,020	27,000

Fresh Consumption	4,590	10,176	10,471	21,592	15,065	21,531	29,105	30,000
Total Distribution	25,050	49,810	39,381	55,645	46,352	56,022	64,002	59,000
Note: 2018 data is tentative estimates and 2019 data is forecast by FAS/Sofia								

Table 8: Exports of Processed Cherries, 2016-2018

Bulgaria Export Statistics **Commodity: 200860, Cherries, Prepared Or Preserved, Whether Or Not Containing Added Sweetening Or Spirit**							
Partner Country	Unit	**2016**		**2017**		**2018**	
		USD	Quantity	USD	Quantity	USD	Quantity
World	T	25,497,528	6,936	27,752,520	7,188	28,409,278	6,553
Germany	T	23,848,260	5461	25,475,718	5331	27,276,287	5,597
Russia	T	541,558	566	412,639	426	329,013	346
Italy	T	186,363	157	499,971	372	208,179	163
Romania	T	69,252	71	207,558	203	187,716	170
Canada	T	56,213	47	68,841	57	65,425	48
Israel	T	96,467	87	118,069	110	58,160	46
Spain	T	0	0	10,974	9	50,692	24
Australia	T	146,213	135	94,001	85	45,961	33
Austria	T	17,916	14	53,657	43	44,205	27
Poland	T	68,301	49	180,834	123	36,264	25

Source: Trade Data Monitor/Eurostat

Table 9: Exports of Processed Peaches, 2016-2018

Bulgaria Export Statistics **Commodity: 200870, Peaches, Prepared Or Preserved, Whether Or Not Containing Added Sweetening Or Spirit**							
Partner Country	Unit	**2016**		**2017**		**2018**	
		USD	Quantity	USD	Quantity	USD	Quantity
World	T	12,928,860	13,610	13,192,791	13,130	13,020,814	12,914
Poland	T	2,310,967	2,649	2,540,552	2,886	3,028,827	3,505
Italy	T	2,235,314	1,850	2,365,408	1,853	2,316,296	1,685
Romania	T	1,505,885	1,604	1,748,599	1,775	2,195,427	2,201
Hungary	T	1,093,320	1,282	1,157,863	1,270	1,594,997	1,747
Russia	T	2,120,377	2,301	1,496,133	1,579	1,046,953	1,074
Slovakia	T	962,973	1094	788,169	853	1,030,828	1,115
Germany	T	511,881	377	578,230	355	505,907	325
Czech Republic	T	1,254,443	1,461	1,076,295	1,217	422,831	458
Canada	T	78,025	77	177,375	180	269,419	274

Source: Trade Date Monitor/Eurosta

Attachments:

No Attachments.