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Bulgaria

Livestock and Products

U.S. Export Opportunities on the Meat Market

2001

Approved by:

HOLLY HIGGINS

U.S. Embassy, Sofia

Prepared by:

Regional Staff

Report Highlights:

Exports of U.S. meat into Bulgaria are forecast to increase by 10 percent in the next year. Demand is rising for pork for processing and high-value beef cuts. The local supply of meat is declining due to an animal feed shortage and high prices.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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Current Demand

U.S. high quality beef

There are several factors affecting current high beef demand. Over the last year and a half, the hotel/restaurant/institutional catering (HRI) sector has rapidly developed as a result of privatization and the emerging of tourist industry. The number of foreign tourists in 2000 increased 13 percent compared to 1999, to 2.3 million, and this brought 32 percent higher revenues in the tourist industry. Ongoing economic stability boosted foreign investment and thus the number of business visitors to big cities increased. Gradually increasing average incomes also contributed to rapid development of this sector. Average monthly income is \$122 but in big cities it often exceeds \$500 per capita. According to some recent market studies, about 25 percent of local consumers account for 75 percent of all food sales and are in the group of so called "strong" consumers which buy "brand" quality products and dine outside their homes 50 percent of their time. These changes along with the parallel development of the supermarket trade led to increased consumption of higher value products, of higher quality, more expensive and "brand name" products. A logical result of this development is the growing demand for well known Western food products such as U.S. high quality beef.

A recent visit of the U.S. Meat Export Federation (USMEF) to Bulgaria resulted in two prime hotels in Sofia starting U.S. high quality beef menu promotions this year. The first restaurant offering U.S. beef will start selling the product this month. The first member of the "U.S. Beef Club" signed its first contract and received an USMEF membership certificate. Although it is difficult to estimate the volume of this new business (about 1.0 MT monthly), it is important because the Bulgarian meat industry welcomes such products. Bulgaria is second only after Poland in Eastern Europe in terms of U.S. high value beef promotions and sales.

Other U.S. meats

In addition to the above changes, the local pork/beef supply in CY2000 has fallen sharply. Meat prices increased from July 2000 to date by about 50 percent. This resulted in higher imports of pork and beef since November 2000 (when the first BSE cases were reported in the EU). Imported pork is only for processing. Usually locally produced pork is used fresh/chilled for direct consumption and for sales in supermarkets and HRI sector.

Today, the local meat industry is experiencing new consumption trends because of the BSE/FMD bans on imports and new local regulations. All meat importers and processors have reported much higher demand for pork which traditionally is the major meat produced and consumed. So far, beef was imported only for processing and mainly from EU countries - the major imported products were beef trimmings and edible sub-products. The U.S. continues to compete successfully on this market. However, due to consumers' BSE based fears, beef consumption for processed meat products has sharply decreased. The same trends were reported by the HRI sector where many consumers stopped eating beef regardless of its origin. This reduction was substituted by pork and turkey/turkey mechanically deboned meat/MDM (in the meat processing industry); and pork and especially chicken meat (in HRI sector).

Table #1. Meat Imports in Bulgaria in CY2000 in MT

| Meat Imports in Bulgaria in CY2000 in MT | | | |
|---|---------------------|-------------|---------------------|
| Origin | Beef | Origin | Pork |
| Australia | 374 | Belgium | 1,370 |
| France | 129 | Spain | 454 |
| Germany | 2,138 | Denmark | 751 |
| Italy | 315 | France | 931 |
| Spain | 681 | Germany | 877 |
| Poland | 288 | Netherlands | 504 |
| Total | 8,017/\$7.5 million | Total | 5,260/\$4.5 million |
| <p>Note: Please, note that this data is considered by industry as underestimated due to problems related to customs clearing. The actual import data is estimated by trade groups and the FAS office as 10% higher compared to the official data both in tonnage and in value (i.e. meat imported as "processed", "seasoned", under-invoicing etc.)</p> <p>Source: Official National Statistics</p> | | | |

Table #2. The EU Beef Exports to Central and Eastern Europe in CY1999 and CY2000 in MT

| EU Beef Exports to Central and Eastern Europe in CY1999 and CY2000 in MT | | | | |
|---|------------|--------------------------|-------------|--------------------------|
| | 1999 | | 2000 (Q1-3) | |
| | Volume, MT | Percent of EU exports, % | Volume, MT | Percent of EU exports, % |
| Bulgaria | 11,037 | 1.1 | 3,666 | 0.7 |
| Hungary | 4,727 | 0.5 | 4,200 | 0.8 |
| Czech Republic | 3,113 | 0.3 | 3,405 | 0.6 |
| Poland | 1,616 | 0.2 | 2,855 | 0.5 |
| Romania | 1,426 | 0.1 | 614 | 0.1 |
| Slovakia | 1,418 | 0.1 | 1,664 | 0.3 |
| Bosnia | 10,150 | 1.1 | 7,299 | 1.4 |
| Croatia | 3,540 | 0.4 | 4,120 | 0.8 |
| Source: Agra Food, East Europe, February Edition, 2001 | | | | |

Higher demand for pork and chicken are expected to stimulate higher imports from the U.S. due to competitive prices for both products and due to recent bans on pork imports from EU countries (due to FMD). Lately, an increasing number of local meat importers have reported intentions to import U.S. products because the U.S. is currently the only "safe and competitive " source of meat.

Consumer Trends

According to reports from HRI industry groups and supermarkets, in January - February 2001, recent problems with food safety issues like BSE, FMD, dioxins in the feed etc., have made some Bulgarian consumers lose confidence in the safety of EU origin products. Therefore, the demand for locally produced or non-EU origin foods seems to be growing. Often this attitude, however, makes consumers hesitate in buying all foreign foods. A recent study done randomly among Sofia consumers by a newspaper showed the following results:

Question: Are you afraid of BSE?

Answers:

11% - No, this disease is not found in our country.

12% - I trust that our veterinary service will stop "infected" meat.

15% - I buy only meat products with a certificate.

10% - Yes and that's why I do not buy beef/veal.

52% - Yes, I am afraid but I still do not know what origin I buy.

This shift in demand and drop in consumer confidence may become an additional obstacle for U.S. meat exports since even establishing the origin of the beef product may not be sufficient for some consumers. On the other hand, it is estimated that there is a group of consumers who are educated enough to prefer U.S. origin products because of their safety. Concerns about BSE do not exist among processors/importers of meat for processing or the veterinary officials who have good knowledge of U.S. meat.

Trade Policy

In June 2000, Bulgaria finalized its negotiations with the EU on liberalized bilateral agricultural trade or the so-called "double zero" approach. As a result, Bulgaria opened a duty free import quota for EU origin pork and pork processed products in the amount of 7,000 MT. This quota (5,000 MT meat and 2,000 MT processed products, approved July 1, 2000) was fully used by mid-November 2000. Due to higher demand and a request by the local Association of Meat Processors (AMP), another duty free import quota of 3,000 MT of pork- regardless the origin- was approved for the period January - July 2001. Due to very high demand, this new quota was reportedly used by March 2001. The AMP renewed its request for another 9,000 MT duty free import quota for pork from March to July 2001.

This AMP request also included a turkey (mainly turkey MDM) duty free import quota for 30,000 MT. The turkey quota was refused by the GOB once in December 2000, and it is expected to be refused again now. The new 9,000 MT pork quota is also likely to be refused by the Bulgarian government. Reportedly, the reason for this decision is to protect local pork producers. However, Bulgaria does not produce any turkey and turkey products. Therefore, the reasons for refusal of a duty free import quota remain unclear. This policy will likely result in continuing imports of pork and poultry to meet the demand but at a much higher price for local consumers.

Domestic Supply

According to various sources, the number of pigs in the country dropped to 1.2 million head (1.6 million to the official statistics) from 1.7 million at the beginning of CY2000. The price of local pork increased in the fall of 2000 when the largest swine company significantly reduced numbers due to replacement with an improved breed. Higher prices of pork stimulated farmers to start a new pig crop which is expected to come to the market by April - May. The current unusually high prices for pork stimulate purchasing of piglets. Therefore, the total number of pigs and production of pork is expected to increase later in the year .

Table #3. Prices of Major Feed Grains /Wholesale and Major Types of Meat/Retail as of March 2001

| Selected Prices of Major Feed Grains and Meat as of March 2001 | |
|---|-----------------|
| Product | Price in Bleva |
| Wheat, for food | 235-250/MT |
| Wheat, for feed | 225-240/MT |
| Corn | 256-280/MT |
| Eggs | 0.15-0.16/egg |
| Live calves | 1.40-1.90/kilo |
| Live pigs | 3.00/kilo |
| Whole Chicken, local | 3.0-3.80/kilo |
| Chicken, US leg quarters | 2.40-2.80/kilo |
| Pork | 6.70-10.20/kilo |
| Beef | 7.30-7.60/kilo |
| Lamb | 3.40-3.60/kilo |
| Note: Exchange rate \$1.00=2.1 Bleva Source: SAPI Information Agency | |

Bulgaria does not produce commercial beef cattle. However, recently beef prices have increased as a result of higher demand for exports of live calves to the Near/Middle East spurred by Bulgaria's BSE-free status. Livestock farms estimate about 2000 head of cattle can be exported monthly. In CY2000, these exports totaled 40,000 head. Domestic beef supplies remain limited due to soft demand.

Prices of chicken and pork increased in the last two months by 20 percent compared to last fall. In February, the prices for live pigs were 30 percent higher compared to January which led to a 10 percent increase in the price of locally produced processed meat products.

In general, the overall livestock industry had a difficult time in MY2000/2001 due to record low corn production and high feed prices. By March 2001, the corn prices are 40 percent higher compared to September 2000. The price of wheat is 60 percent higher, and the price of compound feed on average increased 15 percent. The high feed prices have forced small and

medium size livestock farms to increase slaughter rates and larger operations to increase sales prices.

In addition, producers expect higher production costs related to the application of stringent hygiene measures to prevent diseases. The substitution of MBM with soybean meal in feed will also mean more expensive meat since all soybean meal is imported and much more expensive than local substitutes. The most recent import bans will further limit the supply of certain pork cuts - mainly traditionally imported products used by meat processors such as back fat and trimmings - which is expected to lead to further price increases in processed meat products.