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Organic Food Market Update

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Report Highlights:
Bulgaria's organic food market, while small, is emerging, accounting today for about one percent of total food sales today. Over the last three years this young market has witnessed dynamic developments with a growing number of outlets, diversity of products, and improving consumer awareness. Imported organic products dominate the market with an estimated 80 percent share while over 90 percent of locally produced organic foods are exported.

With Europe's financial crisis gradually fading away and consumer income finally stabilizing optimism about organic trade prospects in 2014-15 is growing. Availability, choice, and affordability of organic products will be key factors motivating purchases by the price-sensitive Bulgarian consumer.

General Information:
Summary

Bulgaria has an emerging and still very small organic market. Promotion and domestic support of organic farming and organic foods has been a high priority for every government to date since 2006 but the market faces a number of challenges despite its dynamic growth over the last three years.

Bulgaria followed a National Plan for Organic Sector (2007-2013). By 2013 the aim was to achieve eight percent of agricultural land under organic farming, growing from 0.3 percent in 2005; and 3 percent of food sold on the market to be organic http://cap.europe.bg/upload/docs/2012-06/BIO_NationalPlan_2007_2013.pdf. Although official data for 2013 is not available yet, current estimates show both indexes to be below/around one percent.

While organic farming is driven mainly by generous EU subsidies and good export demand to the western EU member states, which has enjoyed some acceleration over the last two years, the organic food market is still hindered by the overall financial depressions and limited consumer purchasing power.

The health and green eating concept is growing in popularity but a lot still has to be done in terms of consumer awareness. Another challenge is consumer confidence related to efficient official oversight which should guarantee lack of fake or imitation organic products for consumers.

With the prospects of economic improvement in 2014 and 2015, and stabilization of consumer income, it is expected that the interest and consumption of organic and health products will be sustained and developed, although the growth is likely to be slower than in the years before 2008.

Higher income and purchasing power are more likely to lead to improved demand for better/higher quality conventional foods first, followed by more focused attention to locally produce products, and only then followed by organics. Availability, choice, and affordability remain key factors motivating purchases.

Disclaimer: Official data about the organic food market is very scarce and not publicly available. Information in this report is based on a wide range of sources such as industry and trade interviews, industry/NGO/research publications, specialized and daily media, and Euro monitor publications. FAS Sofia made its best effort to use reliable and verified information; however, in absence of official statistics, most data in the report is based on trade estimates.

Local Market Trends

Following Bulgarian accession to the EU, health awareness emerged leading people to search for options to improve their lifestyle. This encouraged a higher interest in healthy eating habits and led to more consumption of healthier foods.

Organic food has seen significant growth in popularity over the last three years. While considerably more expensive than their non-organic counterparts, these products are perceived healthier by consumers. Organic food is among the easiest health and wellness packaged food types to find and is stocked by many retail chains while specialized organic food outlets have started to grow in the largest cities.

The organic sales segment has been not only dynamic with fast growth over the last 3 years but also proved to be more sustainable as previously expected. Sales continued to grow slowly but steadily despite the financial recession.

However, despite the willingness to change eating habits, the diet of the average Bulgarian remains far from balanced. Prevailing lifestyle is still sedentary and the general consumer education on healthier lifestyle often comes from not reliable sources. Often, consumers embrace diet myths, lost in an ocean of varying information provided by numerous non-government organizations (NGOs), internet websites, and less so from researchers, experts or professional dieticians.

Organic foods (massively called bio in Bulgaria) are often associated with health and diet products and are still not easily differentiated from natural, eco, healthy, green, sustainable, fair-trade and sometimes even from home-made foods.

On the other hand, weak oversight on labeling led to massive uses of "eco," "natural" etc. labels which often confuse consumers. Majority of consumer are not yet educated to spot fake organic products.

Consumer awareness is critical for the organic food market. Advertising and marketing campaigns continue to shape a positive consumer attitude. As the category is still relatively new, promoting focuses on organic food as a whole while brands differentiation still remains as a second step to be undertaken in the near future.

Market Size and Structure

Sales of organic foods were estimated in 2007 at 10.5 million leva (7.5 million USD) and in 2012 at 13.6 million leva (9.7 million USD) (source: Euro monitor, see Attachment I) reflecting growth of 29.5 percent over the five year period.

The forecast is for sales in 2013 to top 14.5 million leva (10.3 million USD) and by 2017 to reach 18.5 million leva (13.2 million leva). This represents a growth of 36 percent over the 2012-2017 period. Most estimates about the size of organic foods market are at one percent although official data cannot support this figure.

In 2008, the first organic shop in Sofia opened. Today, organic foods can be found mainly in major cities where health awareness and consumer income are higher.

Today, small chain supermarkets have emerged in major cities and resort areas – Balev Bio Market http://www.balevbiomarket.com/, Bio Mag http://www.bio-bulgaria.com/biomag and Sluntze Luna

(Sun Moon) http://www.bioslunceluna.com/shop/ each with a few outlets.

Between 2008 and 2013 the number of companies involved in imports and trade of organic products has increased three-fold. In 2010 the Association of Organic Traders was established and currently has 22 members http://abt-bulgaria.org/. Its main goal is to support development of the country's organic market.

Health/organic food corners are more popular and can be found in almost all retail outlets as a special emphasis to these products is given in Piccadilly and Carrefour chains. Most retail chains and private label players focus on low-priced offerings, and organic products have yet to be added to their lines.

It is estimated that over 60-70 percent of organic products are sold and distributed through conventional supermarkets although the number of specialized shops has been growing. As more bio/organic food shops open, the concept's popularity grows. Many of these shops, however, can't afford to sell organic food only and usually provide other options for a wide range of health and functional foods.

The total number of various retail outlets selling organic foods is estimated to be about/over 2,000. The number of organic products sold on the market has increased from 1,400 (2008) to over 2,500 in 2012/2013.

However, prices of most organic foods are much higher than their conventional counterparts- from 30 to 400 percent (in certain cases to 600 percent), and this poses a barrier for higher market penetration and market size. Reasons are complex and include market size, slower sales, still small, inefficient, and fragmented local supply which has difficulty with access to retail chains. The price difference between organic and conventional products is wider than in Western Europe which further depresses local interest.

In smaller towns and rural areas, organics are currently not popular since they are considered by average consumers identical/similar to home-grown or home-made foods which are still very popular in these areas.

Consumer cooperatives that provide a direct link between suppliers and consumers are still emerging. Some NGOs tried to support their establishment (example Bio Bulgaria Oil and some coops supported by the leading NGO Bioselena), however, the size of sales and discrepancy between the time/consistency of supply (for example, fresh vegetables in the spring/summer period) and demand (demand in urban areas is the lowest in the spring/summer season due to holiday season) made this coops fragile and unstable.

Over the last year, there were more attempts to support weekend organic farmers markets in major urban areas. Despite general consumer interest, it turned out that industry and authorities do not have enough resources and capacity to guarantee that the products offered at these markets are certified organic and not mixed with conventional or fake products. These markets are popular but are still more important as a promotional tool for consumer awareness rather than for actual sales volume/value.

Marketing surveys regarding consumer attitude towards organic foods are not many. Studies show that consumers in general are price sensitive to organics, as for any other food. The first type of consumers (often younger urban families) can be put in the category of "health conscious" who understand and appreciate organic food but can't afford buying, and prefer to buy organics for their children only. This is one of the reasons why organic baby food is a leader in organic food sales.

Another consumer group is so called "beautiful and handsome" category of consumers who traditionally consume diet foods and expand their buying options to organics. A big group of buyers are so called "urban trendy" consumers, usually urban consumers who buy organics since this is a symbol of modern, Western lifestyle. Finally, industry also says that there is a small group of "snobbish buyers" who buy organics due to their high price to demonstrate a certain social status.

Local Supply

Most locally produced organic products (estimated at 90 percent) are exported to the EU-15 and the U.S. Some industry estimates show that the sales of Bulgarian origin organic foods are at about 8-10 percent of total sales vs. 92 percent imported.

Consumers consider local products to be fresher, higher-quality offerings, because the delivery from manufacturer to retailer's shelf is faster than for similar products imported from abroad. However, insufficient local supply does not allow a good development of processing facilities, and as a result there is a very limited offering of local value-added products.

Bulgarian organic products are cheaper than imported ones and it is likely that with the growth in product variety, pricing options are likely to develop. Price segmentation should be in the focus of market players since many consumers may remain price sensitive in the next 5 years.

Major organic products produced locally are fruits (apples, peaches, cherry, strawberries, raspberries, plums, grapes for wine making), nuts (walnuts and almonds), herbs and spices (dill, aniseed, lavender, roses); plant oils (pumpkin, lavender, grape seeds); honey, jam; there is small production of organic veal and lamb. About 60 percent of organic products come from collection of wild mushrooms, herbs and spices and not from farms. Yogurt, cheese, honey are the main livestock products. Main value-added local products are yogurt, cheese and chocolate.

There are also a few local brands. Harmonica (producer Bio Bulgaria, organic dairy products) is the first and still the most popular one. Gimel is the major supplier of fresh vegetables.

Some food manufacturers such a Gradus (poultry) and Tandem (meat products) tried to produce their organic brands in addition to their conventional ones. It is believed that this trend promises good opportunities and more such expansions of local brands with organic brands may be seen soon.

The fastest-growing type of food in 2012/2013 was organic yoghurt (dairy- and soy-based). It posted the highest value sales growth of 27 percent in 2012. Yoghurt is a traditional favorite of Bulgarians and it is held to contain important ingredients for a healthy diet. Therefore, consumers are inclined to look for healthier yoghurt, such as organic variants. Functional yoghurt still remains unknown on the market due to the market's small size.

Gimel (www.gimel.bg) is among the leading producers of greenhouse cucumbers and tomatoes. It is a main supplier of organic packaged greenhouse vegetables for the local market but also for exports. Gimel has four greenhouse complexes which cover a total area of 56 HA situated in different regions of the country: Zvanichevo (Pazardzhik region); Levski (Pleven region); and Marten (Rouse region). The producer started growing organic vegetables in 2001. The packaging complies with EU standards and quality requirements. The company's products are sold under the registered trademark Gimel Organic and can be found in Piccadilly, Billa, HIT, Frodo retail chains, as well as at outlets of Rewe, METRO, EDEKA (Germany), Marks & Spenser, Sainsbury's (UK), and at Healthy Shops (the Netherlands) and in Scandinavian countries.

Local organic wine grows in popularity as well but branding is challenging due to insufficient supply by several small wineries. In addition, it often has to compete with widely popular home-made wine.

Other well-known local suppliers and brands include: Gerada GM (honey, walnuts, apricot seeds); BioPrograma (tea and herbs); Ira Eco (herbs and spices), Krismar (herbs); Serena (dried fruits and vegetables); Rodopica Select (honey) etc.

Promotions and Consumer Awareness

There have been numerous campaigns over the last 3 years to promote organic foods and healthier lifestyle, supported by the government and by the private sector (NGOs in cooperation with private suppliers and traders).

The Ministry of Agriculture and Foods traditionally supports Bulgarian pavilions at the Green Week in Berlin and at BioFach, Germany. The participants are about 10-15 companies. The major local show is the international exposition Bio & Eco Expo which usually features about 50-60 companies.

Private sector traditionally organizes a Spring Organic Fair and/or Green Days in the spring/summer season nationwide. The month of October was announced as a month for promotion of organic foods in the country. These campaigns are often co-funded by various EU sources, such as the Rural Development Program or by various EU technical assistance/development funds through NGOs.

However, it is believed that still one of the most powerful tool for promotion of organic foods remain word-of-mouth, social networks and internet websites and/or on-line stores for brand promotions. This is related to the general lack of consumer confidence in organic certification, and qualities and benefits of organic products. Please, see a list of most popular websites at the bottom of this report.

Imports of Organic Foods

Imported organic products dominate with over 70 to 80 percent market share. The reasons are complex and include lack of local processors which can supply processed and added value organic products; small size of the market; still fragmented local industry which has difficulties accessing retails chains. Most imports come from Austria, Germany, Greece, and the Netherlands.

Currently, imported organic products have better marketing, availability and choice for the local consumers, and are still price-competitive to locally made products. In addition they are "trusted" for being genuinely organic while are there are still doubts about local foods. The most popular and best seller imported organic product is baby food (and brands such as HIPP) as well as other foods appropriate for infant nutrition.

Most imported brands have only organic ranges. Several multinational brands, however, have launched organic versions of their products. Their sales, however, are hindered by the fact they are not extensions to known brands and thus require more investment in consumer awareness and market development. In the case of known multinational brands, consumers consider organic versions with some suspicion, as they think that such products may contain non-organic additives of their standard counterparts.

According to industry sources, the good position of imported organic products may change in advantage of domestic players in the future. Local brands are likely to be favored because of their lower prices and freshness if they are well marketed and easily available.

Due to the lack of established local processors, U.S. exporters of processed organic foods and food ingredients may benefit from the equivalency agreement. U.S. exporters can find detailed information about how to export organic foods to Bulgaria at: http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/organic-production/

US-EU Equivalency Arrangement

The US-EU Organic Equivalence Arrangement took effect on June 1, 2012. The U.S. and EU have recognized each other's organic production rules and control systems as equivalent under their respective rules. Organic products certified to the USDA organic standards may be sold and labeled as organic in the EU. Both the USDA organic seal and the EU organic logo may be used on products traded under this Arrangement. When using the EU organic logo, exporters must meet all the EU labeling requirements. http://www.usda-eu.org/trade-with-the-eu/trade-agreements/us-eu-organic-arrangement/

U.S. exporters interested in market entry can contact the Association of Organic Traders as well as the three local chains for organic products (Balev Bio Market, Bio Mag, Sluntze Luna) and FAS Sofia (agsofia@agsofia.fas.usda.gov) for detailed information about the local market.

Exports of Organic Foods

Bulgaria exports 90 to 95 percent of locally produced organic products. Honey is the top organic export product (estimated at about 2,000 MT), according to NGOs. Reportedly, Bulgaria is fourth in Europe by exports of organic honey. Other major export goods are organic rose and lavender oil, raspberries, strawberries, and wheat.

Local organic industry understands that it needs higher supply/exports of value added products and appeals for the future national organic sector strategy to put greater emphasis on encouraging exports of added value and end-products rather than raw materials.

The EU and the U.S. are the major markets for locally produced organic herbs, spices and essential oils. These products often end up at the U.S. market as ingredients of EU products manufactured in Germany and/or France but are also exported directly.

The US- EU trade agreement for organic foods was a welcome agreement by the local organic players not only in lifting trade barriers but also improving consumer confidence in the status of imported organic products. It is believed that to date the agreement has provided more benefits to local producers and exporter than to U.S. companies.

Organic Market Regulations

Oversight and implementation of certification and labeling regulations are critical for the organic market development. The state needs to strictly regulate manufacturers and importers to make sure that fake products do not appear on retailers' shelves, thereby undermining consumer trust in organic food.

Some manufacturers and traders attempted to take advantage of the growing popularity of organic food by labeling their products as "organic" and "bio" even if they were not. Organic players are concerned that labels such as "eco" and "naturally pure" mislead consumers who can't differentiate them from true, certified organic products.

For this reason, in 2007 and 2008, the organic industry together with Consumer Protection Commission, NGOs and authorities held a campaign "No to Fake Organics." As a result, 54 fake organic products were identified – rice, dry beans, cereals, fresh vegetables, yellow cheese, etc. In 2013, the Bulgarian Food Safety Agency identified a retail sale of fake organic products (citrus fruits) http://www.babh.government.bg/bg/news&article_id=788.html which were conventional but re-packaged and labeled as organic. Organic traders reported in 2013 about fake organic honey, cans, bread, and soft drinks.

This forced the Bulgarian Ministry of Agriculture and Food to develop stricter regulations on what is considered bio and organic food. According to the new regulations, which are compliant with EU legislation, "bio," "ecological" and "organic" labels can only be placed on products which have been tested scientifically in special laboratories approved by the ministry, or respective EU institutions in the case of imported products. The legislation is mostly adhered to and Bulgarian consumers are increasingly aware of how to recognize fake organic products.

Organic Logo - The organic regulation 835/2007 is mandatory (since July 1 2012) for organic pre-packaged food (at least 95 percent organic) to carry the prescribed EU logo, which may exist alongside other organic logos. Bulgaria has a national logo as well. Organic products imported from third countries may carry the EU organic logo if they comply with the EU production rules. When the EU organic logo appears on the label, the indication of the place of farming is required.

Health Claims – The EC Regulation 907/2013 sets out rules for the use of "generic descriptors" which could be interpreted by consumers as health claims. Generic descriptors such as "digestive biscuit" and "cough drop" would normally be banned under the EU's Nutrition and Health Claims Regulation 1924/2006 because they have not been assessed by the European Food Safety Authority. Under the new regulation, companies using generic descriptors may apply for an exemption from this ban. For more information see Nutrition & Health Claims webpage and http://www.usda-eu.org/health-claims-new-eu-rules-generic-descriptors/

Organic Labeling Requirements **-** Council Regulation 834/2007 is the EU's general framework regulation that sets out rules for organic production and labeling. Commission Regulation 889/2008 sets out detailed rules for the implementation of Regulation 834/2007.
The term "organic" and all its derivates or diminutives such as "bio" and "eco" may be used only to label products that comply with EU organic production rules and if at least 95% of the ingredients of agricultural origin are organic. For products containing less than 95% organic ingredients, the term "organic" may be used only to indicate individual organic ingredients in the list of ingredients. When reference is made to the organic production method in the ingredients list, the total percentage of organic ingredients must be indicated. The Annex to Regulation 834/2007 lists the term "organic" in all the official EU languages. For more details, please, see http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/eu-labeling-requirements/organic-labeling-requirements/

Organic Wine **-** In March 2012, detailed rules for organic wines were published in Regulation 203/2012, and applied since 1 August 2012. Commission Implementing Regulation 203/2012. This regulation allows the use of the term "organic wine" where before the label could only mention "wine made from organic grapes." Regulation 203/2012 sets out the conditions to label wine as organic. Sorbic acid and desulfurization are not allowed and the level of sulfites must be at least 30-50 mg per liter lower than their conventional equivalent.

Organic Products Display - Since 2013, organic products should be displayed on separate shelves at retail outlets.

Attachment I

Table A – Sales of Organic Packaged Foods by Category in BGN '000

	2007	2008	2009	2010	2011	2012
Organic Baby Food	3,797.4	3,653.0	3,959.2	3,981.7	3,707.0	3,865.8
Organic Bakery Products	2,316.0	2,344.6	2,551.1	2,482.7	2,733.0	3,046.5
Organic Confectionery	428.8	430.6	491.8	527.2	523.6	578.9
Organic Dairy	832.0	1,062.9	995.9	1,285.0	1,415.9	1,685.8
Organic Oils and Fats	69.6	70.9	73.8	78.2	77.5	82.8
Organic Rice	1,443.4	1,581.4	1,389.8	1,689.9	1,738.2	1,962.1
Organic Spreads	1,413.6	1,765.7	1,698.4	1,887.6	1,892.6	2,058.2

Organic Sweet and Savory Snacks	195.2	217.9	246.4	263.4	263.3	281.8
Organic Packaged Food	10,496	11,127.1	11,406.3	12,195.6	12,351.2	13,562

Source: Euromonitor
Exchange Rate (1.0 Euro=1.95 BGN)

Table B – Forecast Sales of Organic Packaged Foods by Category in BGN '000

	2013	**2014**	**2015**	**2016**	**2017**
Organic Baby Food	4,002.6	4,131.0	4,287.9	4,427.9	4,578.2
Organic Bakery Products	3,295.1	3,540.9	3,777.5	4,066.7	4,243.7
Organic Confectionery	614.0	645.9	667.6	672.2	667.7
Organic Dairy	1,927.7	2,183.0	2,428.2	2,627.5	2,801.2
Organic Oils and Fats	85.2	87.9	90.6	92.4	94.5
Organic Rice	2,137.7	2,303.7	2,463.8	2,645.1	2,858.8
Organic Spreads	2,137.9	2,278.0	2,399.3	2,451.6	2,848.9
Organic Sweet and Savory Snacks	294.4	309.4	329.3	355.2	390.5
Organic Packaged Food	14,494.6	15,479.8	16,444.2	17,338.6	18,483.4

Source: Euromonitor
Exchange Rate (1.0 Euro=1.95 BGN)

Attachment II

Useful links about organic market players and NGOs:

http://biosviat.com/
http://biostylebg.com/
http://biovariantshop.com/
http://www.facebook.com/pages/Plovdiv-Bulgaria/Bio-butik-I-FEEL-GOOD-Bio-boutique-I-FEEL-GOOD/216661261140

http://www.bioburgas.com/
http://zdravosloven.com/
http://zelenbio.com/
http://www.zeleobio.com/
http://www.zoya.bg/
http://www.fargomarketing.com/
http://www.teahousesofia.com/
http://zdravosloven.com/distributsia/index.html
http://tronka.com/?page_id=45
http://zelenazemia.com/
http://zelenidni.com/