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Poultry Sector Annual

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Report Highlights:
The Bulgarian broiler sector continues to grow, driven by strong domestic and international demand. The domestic market has evolved and diversified and the demand for added-value products is on a rise. However, increasing price competition from imports and the detection of highly-pathogenic avian influenza (HPAI) at the end of 2016 have created challenges. Duck producers were severely hit by trade restrictions following the HPAI detections, with Bulgarian duck meat exports declining sharply. Post expects that these challenges will slow growth in the poultry sector, although the prospects for 2018 look good.

General Information:
MY2017 Supply and Demand Forecast

2016 marked another year of growth for the Bulgarian broiler meat production sector, which achieved five-percent growth last year. However, the poultry industry expects that recent year-on-year growth trends may be curbed in 2017 due to the HPAI (N5N8) outbreak late in 2016 and early in 2017, coupled with the Fipronil issue in the fall. Although these incidents did not affect production, they negatively affected export opportunities and consumer confidence in poultry products. The AI detection particularly affected duck producers in December 2016/January 2017 (GAIN BU1701 and BU1704), while the Fipronil case affected three egg farms in September.

Broiler meat imports are increasing and have become more price competitive with domestically produced chicken meat. Decreasing EU meat prices and firm competition in logistics/marketing may lead to some restructuring in the Bulgarian sector. Some of the bigger Bulgarian producers are more limited in terms of their capacity to expand, although others are contracting with smaller farms as a means to increase production. Average prices for broiler meat in Bulgaria are still more competitive than the EU average, but the price margin is shrinking. According to recent Ministry of Agriculture's (MinAg) publications, average broiler meat prices in Bulgaria and the EU-28 narrowed to 18 percent in 2017 compared to 19 percent in 2016, and upwards of 22 percent the previous years. The latest data (January-June 2017) shows an 11-percent decrease in total poultry meat production, primarily due to a 40-percent reduction in duck meat production. Broiler production continues to grow, albeit more slowly, at about four percent. As a result, Post forecasts that growth in broiler meat production will be below five percent in 2017.

Rising incomes, a thriving food-service sector, and the strong tourism season continue to drive demand. Consumer demand for more value-added and packaged products is likely to expand in 2017 and 2018. Investments in poultry processing have expanded.

The volume of Bulgarian broiler meat increased during the first five months of 2017 by 14 percent and by eight percent in value terms. Exports mainly went to Greece, Romania, and the United Kingdom. Imports also grew by 12 percent over the same period, with Poland increasing sales to Bulgaria by as much as 25 percent.

MY2016 Supply and Demand

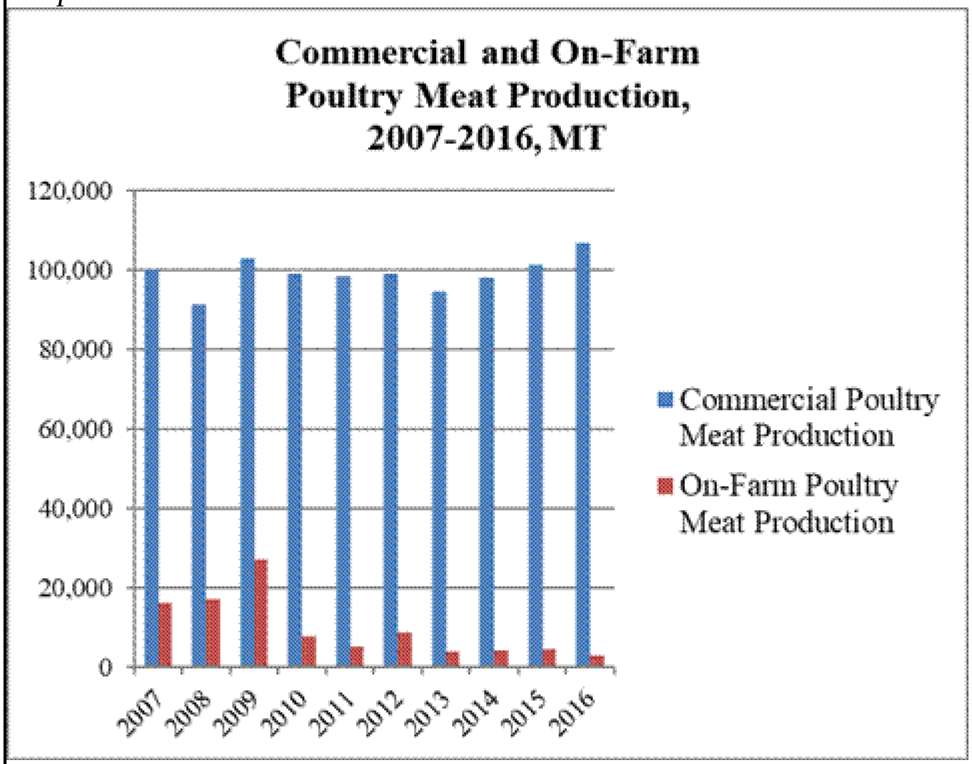
Overview

The Bulgarian poultry meat sector consists of two sub-sectors, namely chicken broiler meat, followed by duck meat. Commercialization and concentration of poultry production is higher than the red meat and dairy sectors. Poultry is the most export driven and has the highest degree of vertical integration
(Graph 1).

Broiler production leads the poultry sector and accounts for about 70 -75 percent of the total poultry meat supply (Graph 2). In 2016 broiler meat output grew by five percent over 2015, but remained at 98 percent of 2009's peak production level. Bulgaria's growth in poultry is driven by the improving economic situation, growing consumer demand, better and more affordable feeds and other inputs, and export opportunities.

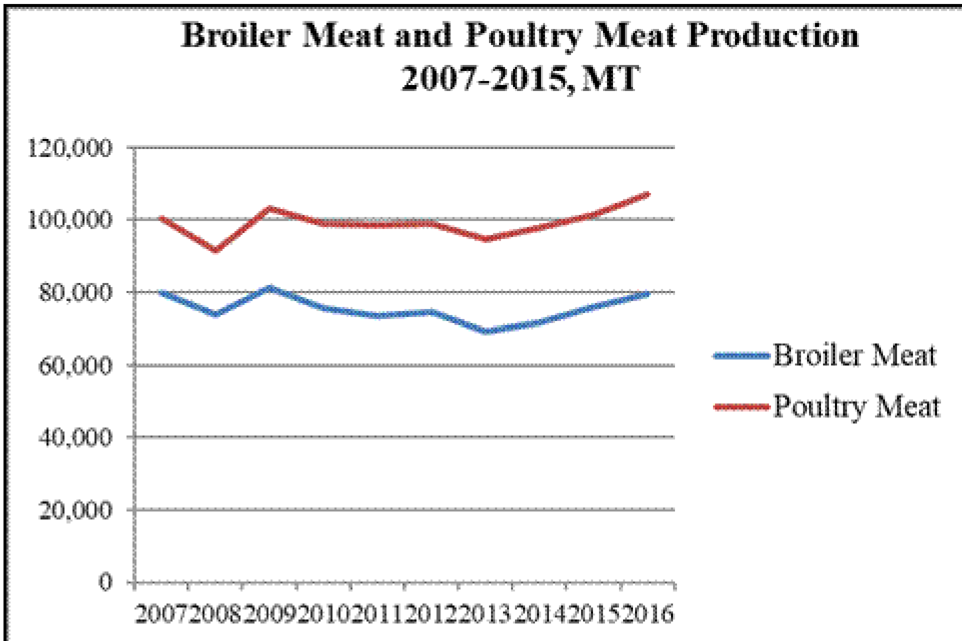
Duck meat also experienced solid production growth due to new investments in the sector and helped
total commercial poultry meat output to increase by about six percent. Backyard production declined by 37 percent and its share shrunk to an insignificant two percent of total output (Graphs 1 and Table 4).

Graph 1



Source: Ministry of Agriculture and Foods Statistical Bulletins

Graph 2



Source: Ministry of Agriculture and Foods Statistical Bulletins

Broiler Meat Supply

Broiler Farms: Due to growing production and good margins some larger companies have expended by contracting with small farms as a means to increase production. As a result, the number of small producers (up to 200 birds) skyrocketed by 168 percent and broiler stocks increased by 333 percent (Table1). At the same time, strong competition forced other major producers to shrink production and restructure, which explains a drop in the number of some of the larger farms. At the end of 2016 total on-farm broiler stocks were 27-percent lower than in 2015 (Table 1).

Broiler Meat Output: As a result of improving production practices, broiler meat output increased by five percent (Table 2). The number of slaughtered birds grew by two-percent and average carcass weight
was stable at 1.6 kg. The share of broiler meat in total poultry meat production was steady at 72 percent (Tables 1 and 4).

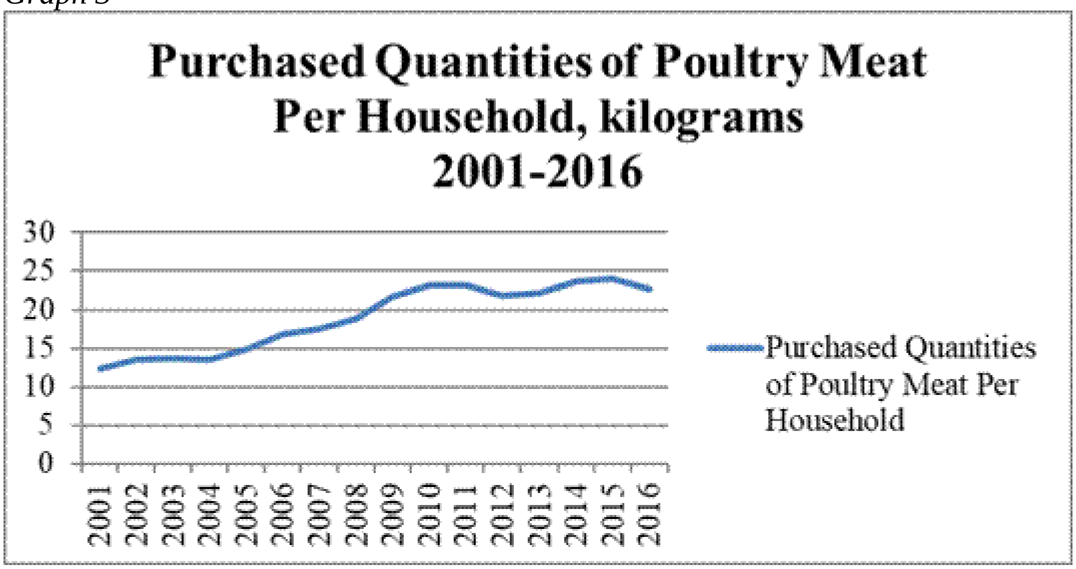
Unlike the beef and pork sectors, broiler meat is produced only at slaughterhouses, thereby making the commercial supply more consistent in terms of volume and quality. The local whole-bird market is still more significant than cuts, although market trends are evolving. In 2015 broiler-cut production in slaughterhouses was seven-percent more than in 2014, while whole-birds products grew by five percent. In 2016, the trend was more pronounced, with 15-percent growth for cuts and no discernable growth in whole birds (Table 3). Thus the production of broiler cuts in 2016 was the highest to date, while that of whole birds was on par with 2015. Market share for cuts is now 60 percent of total market share for whole birds (52 percent in 2015). This trend indicates that the market is increasing for value-added and convenient products, in parallel with higher customer incomes.

Other Types of Poultry Meat: **D**uck farming is increasingly important for the Bulgarian poultry sector. Duck farmers rely mainly on international demand for meat and paté. Although smaller in size, this sub-sector generates significant export sales. New stakeholders and more investments entered the market in 2016/2017. A small part of local output (duck meat) is marketed locally, mainly in the food service sector. In 2016 duck meat production increased by 13 percent as a result of seven percent more slaughtered birds and increased average carcass weight from 2.9 kg/bird to 3.1 kg/bird.

Consumption

Consumption of poultry meat has increased since 2014, due to improving purchasing power. Poultry meat is considered to be a less-expensive protein source than red meat and is also perceived as more healthful. Graph 3 below is based on official data and illustrates this trend, although the official statistics do not
reflect the amounts consumed by the food service sector which accounts for a significant portion of consumption, especially in value terms.

Graph 3



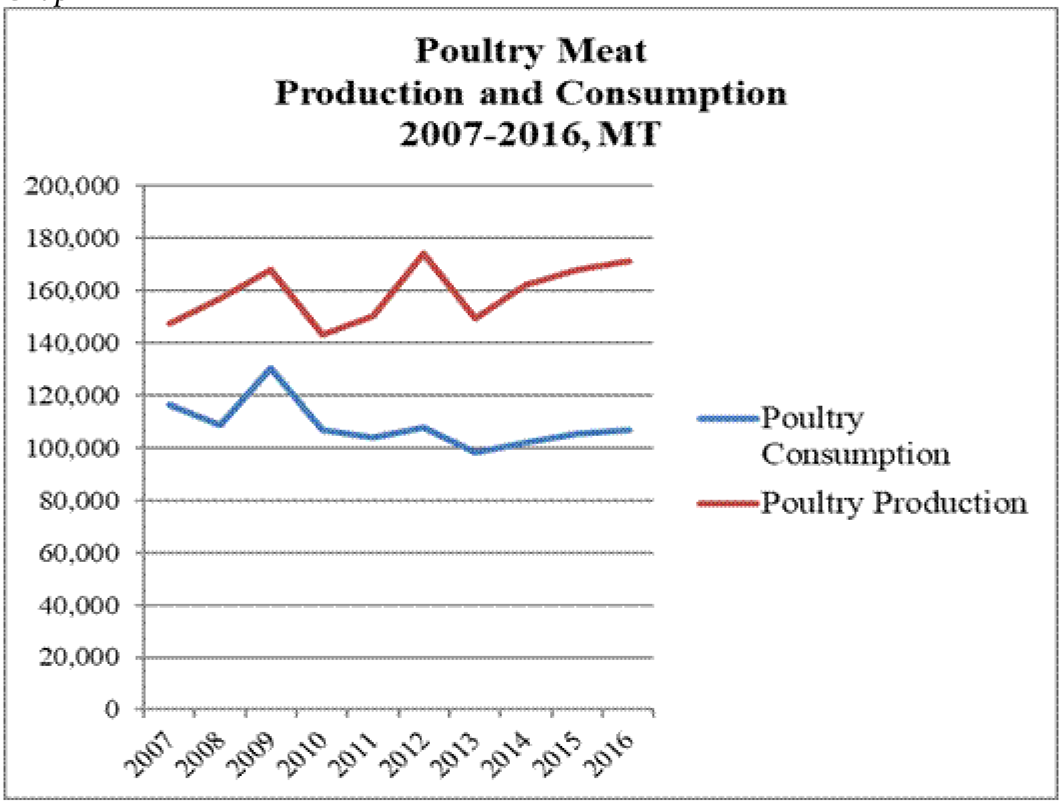
Source: National Statistical Institute

In 2016 higher domestic supply and increased imports resulted in two-percent growth in consumption, a slower rate of increase compared to the previous year. It reached 171,000 MT and was only two
percent lower than the record consumption in 2012 (Table 4). A major reason for the growth over the
last three years is the expansion of food service companies and retail outlets offering fresh chicken meat. There has been an increasing preference towards chilled vs frozen product, white meat vs dark meat, and to more added-value cuts.

In 2016 local supply accounted for 64 percent of consumption versus 63 percent in 2015 (Graph 4). There are complex reasons for this trend such as risk diversification for the local suppliers between local and export markets, higher demand for select products over other, export orientation of the

duck
sub-sector, etc.

Graph 4



Source: Ministry of Agriculture and Foods Statistical Bulletins

Trade

Local poultry producers target exports as a means to mitigate risk and increase the value of their sales, compared to the local market which is still dominated by price-sensitive consumption, especially in rural areas. For this reason, imports have grown to meet demand, especially for select cuts. Imports are
heavily dominated by broiler meat while export revenue comes mainly from duck products. Due to the higher price of duck exports and lower value of broiler imports, generally the poultry trade balance is negative in tonnage and positive in value (Table 5).

In 2016, the trade balance for poultry meat (source: Poultry Meat Group 27/World Trade Atlas) in value terms was positive and increased considerably from $26.7 million in 2015 to $61.6 million. In 2017 (January-May), however, the balance decreased by 65 percent due to duck exports affected by the AI outbreak. In volume, the trade balance in 2016 it negative at minus 61,000 MT, the same level as in 2015. For January-May 2017, the negative balance increased from 29,000 MT in the corresponding period the year before to 35,000 MT in 2017.

Imports

Annual 2016 poultry imports (volume) were flat compared with 2015 (Table 5) and due to lower import prices it declined by six percent in value ($104 million). Major suppliers were Poland (45 percent), Romania (12 percent), and the Netherlands (nine percent). In 2017 (WTA, January-May) imports increased by 10 percent in volume and by nine percent in value. Broiler meat dominated poultry meat imports. After a small decline of one percent in 2016 Bulgaria increased again imports of broiler meat (PSD Broiler Meat/ World Trade Atlas) by 13 percent in January-May 2017.

The largest import category still remains frozen chicken leg quarters (CLQ) (HS#020714) although these imports declined by 14 percent in 2016. CLQs accounted for 42 percent (53 percent in 2015) of total broiler imports in 2016 (tonnage). Other frozen product (HS#020712) imports were also lower. Thus total frozen broiler imports in 2016 were at 48,182 MT and its share in total poultry imports declined from 59 percent in 2015 to 47 percent in 2016.

Exports

In 2016 poultry exports (Poultry Meat Group 27/World Trade Atlas) increased by three percent in volume and by 21 percent in value ($137 million). Major markets were Greece and Romania for broiler meat, and France and Belgium for duck meat. In 2017 (January-May), exports declined by five percent in volume and by 18 percent in value due to HPAI-related trade restrictions, which particularly affected duck exports. (Table 5).

Broiler meat exports (PSD Broiler Meat/ World Trade Atlas) in 2016 declined by nine percent in tonnage and seven percent in value. Greece as the leading market accounted for 54 percent of broiler meat exports, and Romania for 23 percent. In 2017 (January-May) exports grew by 14 percent with the highest increase to Greece and the United Kingdom, followed by Macedonia.

Agricultural Policy

The poultry sector is eligible for domestic support for introduction of animal welfare standards. In 2017 the MinAg paid 17 million leva ($11 million) to 180 farms under this program.

Appendix:

Table 1. Farms Raising Chicken for Meat as of December 2016

Farms Raising Chicken for Meat as of December 2016				
Number of birds per farm	**Farms**		**Chicken raised for meat**	
	Number	Change, percent 2016/2015	Numbers, 000	Change, percent 2016/2015
1-199	796	168.0%	13	333.3%
200-9999	25	13.6%	110	12.2%
10,000 – 99,999	73	10.6%	2,386	0.4%
100,000 and	11	-52.2%	2,782	-42.0%

above				
Total	905	121.8%	5,291	-27.3%
Source: MinAg, Bulletin 323/March 2017				

Table 2. Poultry Meat Production 2016

Poultry Meat Production 2016							
Categories	**Slaughtered birds, 000**	**Live Weight**		**Carcass Weight**		**Sub-products, MT**	**Change, 2016/2015, in percent**
		Total, MT	Average, kg	Total, MT	Average, kg		
Broilers	46,987	102,474	2.2	74,873	1.6	4,737	5.0percent
Hens and cocks	2,396	5,880	2.5	4,207	1.8	136	-15.6percent
Ducks	5,653	28,653	5.1	17,340	3.1	5,479	12.9percent
Total	55,058	137,137	-	96,498	1.7	10,354	5.5percent
Source: MinAg Bulletin 331/June 2017							

Table 3. Poultry Meat Cuts Production at Slaughterhouses 2011-2016, MT

Poultry Meat Cuts Production at Slaughterhouses 2011-2016, MT							
		2011	**2012**	**2013**	**2014**	**2015**	**2016**
Type of poultry	Type of poultry cuts						
Broilers	Bratfertig (whole birds with sub-products inside)	340	143	133	226	359	319
	Grill (whole birds)	42,254	46,691	43,386	43,825	46,151	46,211
	Cuts	21,828	21,874	20,471	22,372	24,024	27,684
	Waste	1,349	776	691	622	604	659
Hens and cocks	Grill (whole birds)	3,262	3,042	3,863	3,880	4,459	3,552
	Cuts	4	17	6	NA	NA	NA
Ducks	Cuts	15,004	14,853	14,070	15,929	14,202	16,219
Source: MinAg Bulletin 331/June 2017							

Table 4. Poultry Meat Production, Imports, Exports and Consumption in 2008-2016, MT

Poultry Meat Production, Imports, Exports and Consumption 2008-2016, MT				
Commercial production	**Produced on-farm**	**Imports***	**Exports***	**Domestic Consumption**
2016				
106,852	*2,788*	*104,407*	*42,785*	*171,262*
2015				
101,252	4,402	102,709	40,643	167,720
2014				
97,995	4,198	101,679	41,576	162,296
2013				
94,519	3,869	90,692	39,583	149,497
2012				
99,006	8,617	113,320	46,893	174,050
2011				
98,609	5,247	103,454	56,801	150,509
2010				
99,065	7,850	87,428	51,254	143,089
2009				
103,037	27,115	71,073	33,090	168,135
2008				
91,340	17,211	62,289	13,972	156,868
2007				
100,153	16,236	43,611	12,446	147,554
Source: Ministry of Agriculture and Foods Statistical Bulletins (Imports and Exports calculated in poultry meat equivalent)				

Table 5. Poultry Meat Trade 2015-2017

Poultry (Including Broiler) Meat Trade 2014-2016 (January-May)					
	2015	**2016**	**2016 (January-May)**	**2017 (January-May)**	**Difference, in Percentage 2017 vs 2016 (January-May)**
Poultry Meat Group 27					
Imports in MT	102,709	102,211	49,084	53,943	9.90percent
Exports in MT	39,872	40,956	19,989	19,127	-4.31percent
Imports in million U.S.$	109.9	103.8	50.6	55.1	8.71percent
Exports in million U.S.$	136.5	165.4	79.4	65.0	-18.12percent
PSD Broiler Meat					
Imports in MT	95,084	93,800	45,635	51,454	12.75percent
Exports in MT	28,830	26,383	13,118	14,965	14.07percent

Imports in million U.S.$	101.7	94.7	46.3	52.1	12.42percent
Exports in million U.S.$	68.3	63.8	31.8	34.4	7.91percent

Note: Poultry Meat Group 27 includes the following HS#:020710-14; 020721-27; 020731-39; 020741-45; 020750-55 and 020760.
PSD Broiler Meat includes the following HS#: 201711-12-13-14, and HS#160232
Source: World Trade Atlas