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Sector: Agriculture

Prepared by the Danish Embassy in Sofia

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Abstract:
Agriculture has been and still is one of the core sectors of the Bulgarian economy. In recent years, the agricultural market has seen very dynamic growth and has started to outline market diversification. All this provides sound basis and good opportunities for Danish companies, presenting advanced technologies and specific know-how, to enter the Bulgarian agricultural market and operate successfully. Danish companies will be able to take advantage of the good geographical location of Bulgaria and the relatively low labor costs when considering outsourcing and expansion.
The market also provides good opportunities within the field of organic products.

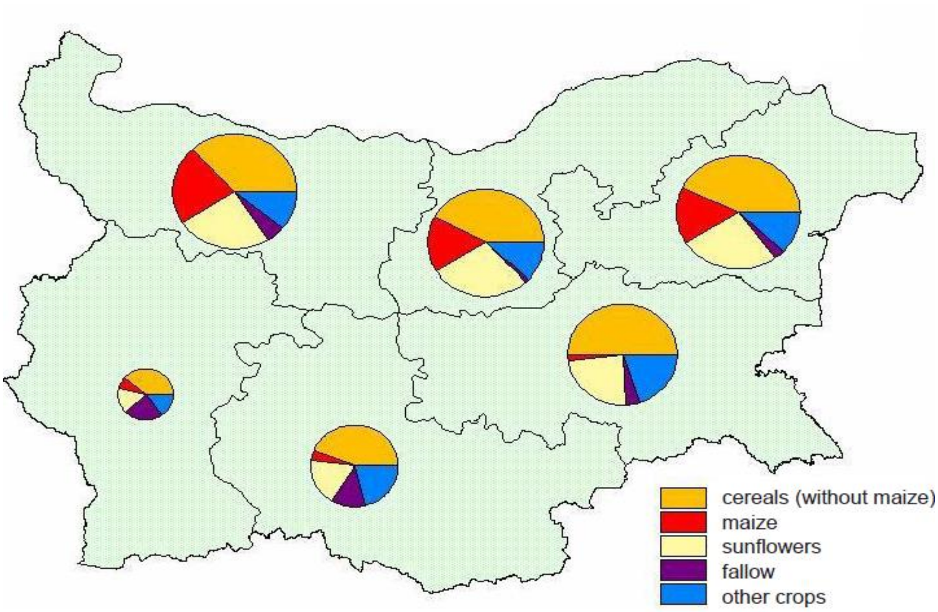
Agriculture sustains a major part of the Bulgarian economic landscape. The country enjoys a number of favourable geostrategic, climatic and natural endowments, which have significantly contributed to the development of century long traditions in both plant-growing and livestock breeding. The gross value added and the value of the final produce in agriculture have **been growing in 2011, respectively by 3.8% and 1.8% for 2012, but the sole reason for this is the increase in prices and not an increase of production volumes.** The highest growth is in the value of crops, the reason for this is mainly the increased prices of wheat. In the industrial crops sector sunflower seed does not manage to cover completely the losses of rapeseed production. The value of produce in vegetable production keeps declining.

The value of produce in the livestock breeding sector has been growing by about 4%; all main groups show growth – large farm animals, pigs, sheep, goats and birds. This is also likely to be a case of a price effects.

The sector is currently facing a dynamic transformation process including improvement of quality standards in order to fulfill the EU requirements, hence being able to export to the common market in the EU. Furthermore, in the light of the EU membership Bulgaria has adopted the EU Common Agricultural Policy and Bulgarian farmers have started benefiting from the direct EU agricultural subsidies. This will also contribute to improving the quality and efficiency in the sector in general.

General information

Bulgaria enjoys excellent natural conditions for developing the agriculture and forestry sector. Cultivated agricultural land occupies about 4.9 million hectares or 44% of the total territory of the country. The favorable climate for crop production and the availability of agricultural land and long traditions have resulted in well-developed plant growing and animal breeding. Other advantages are the low labor costs and the high-schools and colleges offering training in modern farming and animal breeding. Foreigners cannot own land, but the Foreign Investment Law removed restrictions on the acquisition of land by locally registered companies with foreign participation. Among the main crops produced are tomatoes, pepper, tobacco, grapes, wheat, maize, beans, potato, sunflower, peaches, apricots, apples, melons, and nuts. There are traditions in the sheep, pig and cattle breeding, poultry farming, and bee-keeping.



Source: Ministry of Agriculture and Food & National statistical institute of Bulgaria

The area of arable land is 3.2 million ha and 70% of it is located in the North-east, North-central and South-central part of Bulgaria.

In the beginning of 2013 the realities of the past year in agriculture are starting to take shape in the first estimates released by the National Statistical Institute (NSI). The data on agriculture and fishery containing data from the official census of European farms in 2010 recently released by Eurostat allows us to compare the development of the sector in comparison with EU-27.

In the past 2012 subsidies in the agricultural sector skyrocketed and have reached record levels (BGN 1.08 bln. according to NSI). In 2012 we have also witnessed a deepening of the processes which have been underway in Bulgarian agriculture – a growing share of crop farming and especially corn production. A temporary correction observed is the decline of the share of industrial crops (because of the bad weather conditions this summer) and the meager growth of livestock breeding. Land leasing expenditures continue to grow (with a yearly rate of 8% according to NSI preliminary estimates) due to increasing subsidies based on arable land and competition for leasing land. Entrepreneurial income from agriculture is growing rapidly – at a yearly rate of 10.7% according to preliminary data – but it is still below its 2001 levels and far below its 2008 levels (when food prices hit new record levels). Basic capital investments have been decreasing for the past two years.

The agricultural gross value added with % of GDP was in 2013 5.47 %, which is a 0.03 percent point increase from the previous year.

Recent data from Bulgaria's national institute shows that the total price indices of goods and services currently consumed in agriculture for Q4 in 2014 was 8.1% higher than in 2010. However, it decreased from the corresponding quarter in the preceding year by 4.0%.

Price indices for seeds and planting stocks consumed for Q4 in 2014 was 3.6 % higher than in 2010. However, it was 1.8 % lower than in 2013.

Price indices for fertilizers and soil improvers consumed for Q4 in 2014 was 22.7% higher than 2010, but 9.9% lower than the corresponding quarter in the preceding year.

The total price indices of goods and services contributing to agricultural investment in agriculture for Q4 in 2014 was 7.1% higher than 2010, but 4.6% lower than the corresponding quarter in the preceding year.

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The data shows in general a raise in the price consumption and investment for Q4 2014 compared to 2010. However, the total price indices of goods and services in agriculture (agricultural consumption + agricultural investment) for Q4 2014 dropped compared to the corresponding quarter in 2013.

Income

Factor income (income that measures remuneration of all factors of production – labor, land and capital) has been growing by 9.8% in 2012 in comparison with last year, which is primarily due to higher prices of the produce as well as the increasing subsidies in the sector (an increase of over BGN 190 mil.). This income is distributed as follows – employees' income has increased by 5.6% (current prices), land owners income by 8.1%, net entrepreneurial income has grown by 10.7%.

Bulgarian agriculture has one of the fastest growing factor incomes in EU-27 (second only to those of Estonia, Hungary and the Czech Republic) for the 2005-2011 period, as is shown by Eurostat data.

Concentration of land and capital

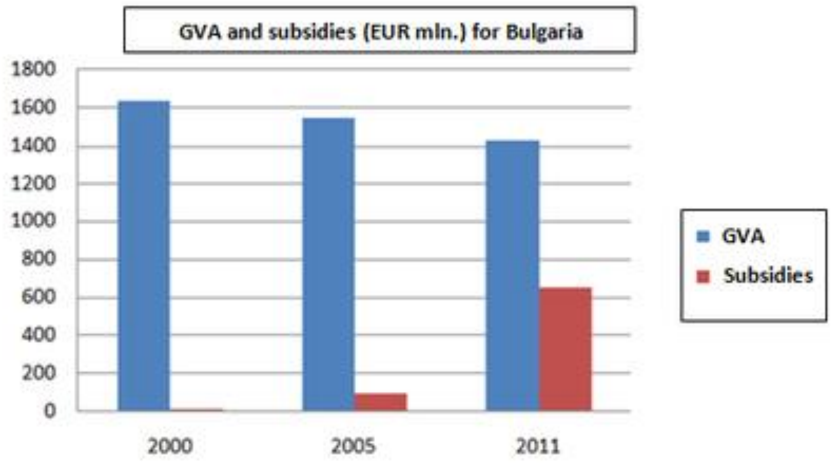
Fast growing income however does not mean that all employed in agriculture enjoy growing wealth. The single-area payment scheme stimulated cereal and oilseed production and led to concentration of wealth in these subsectors. Eurostat data show that 5490 farms (a mere 1.5% of all farms) use 82% of agricultural land in Bulgaria, which counts for an average of 672 ha per farm. They possess the main financial resources – in both terms of production value and amount of subsidies received.

Declining livestock breeding

Unlike corn production, for instance, where land is concentrated in big farms, in the livestock breeding subsector the situation is quite the opposite. Compared to the other EU member states, there is a large fragmentation; under a quarter of the livestock is concentrated in large farms, while about 30% are distributed in farms with less than 4000 euro income per year. Bulgarian and Romania are the only countries in the Community with average yearly milk production of less than 4000 liters per cow (as compared with an average of 6457 liters for the EU). This indicates a serious necessity of investment for improvement of the livestock herds. Bulgaria, together with the Baltic states and Slovakia also has the lowest density of livestock (especially if compared to the size of pastures as part of agricultural land).

The role of subsidies

The focus on growing corn and oilseeds and the decline of livestock breeding, vegetable growing and fruit production is a result of the single-area payment scheme. According to Eurostat data, Bulgaria is one of the countries where subsidies have no positive effect on the gross value added produced in the agricultural sector.



Source: Eurostat

The forecasts for 2013 are that if there is a better harvest on a global level, resulting in a drop of the prices of the main cereal and industrial crops, the income of farmers may decline. Especially if it happens to be a bad agricultural year for Bulgaria, this will definitely lead to a decline in the sector. A possible decline of the price of fodder will allow livestock breeders some freedom to operate, but this is not likely to improve the overall state of the sector. Additional tensions are expected in the "milk" subsector because of its low competitiveness in comparison with the rest of the EU countries as well as the new regulations imposed on milk production.

The unemployment in the sector is the second highest in EU according to recent data by Eurostat. Spain is the leader with 17% followed by Bulgaria with 16%.

Crop Production

The average productivity in the crop production is steadily increasing. However, the productivity level lags behind the average in the EU Member States and the main reason for the relatively low crop productivity is mainly the small size of the farms. The increase of the productivity through a higher degree of mechanisation, adequate seeds and implementation of best land management practice, as well as the higher level of investments is of paramount importance in order to maintain a continued positive development.

Prior to the EU accession Bulgaria's agricultural sector received substantial support under the SAPARD program to improve the production facilities. However, the sector still needs considerable investments for machinery modernisation in order to attain the EU level. After Bulgaria's EU accession the funding for the agricultural sector was increased further and if Bulgaria manages successfully to absorb the EU funds, the agricultural sector has a fine chance to develop rapidly and increase labour productivity.

Additional ways for improving productivity in the sector could be by strengthening the farmer's knowledge about planting and replanting of permanent crops and on-farming irrigation. Further, there seems to be a considerable potential in organic farming. Increased focus on transition from conventional to organic agricultural production could be foreseen.

Livestock Production
Consolidation of farms and technical update is the on-going restructuring and modernisation processes in the livestock production. The tendency is towards implementing measures that allow tracking and control over resources, respectively products, from farms to merchandise systems.



The largest number of animals in the distribution of different types of livestock is sheep. The figure does not include poultry, which actually accounts for the largest number of animals in the agricultural sector. It is worth noting the great difference between poultry production and farm production of sheep, pigs and goats since the breeding of such mostly takes place at small farms while poultry has turned into an industrialized production.

Steps are being taken in order to achieve more adequate control in the field. Hence, a national system for collecting and reporting prices of the qualified and classified meat according to (S) EUROP scale on monthly basis was established.

Fortunately, the policy of the new government is to enhance stock production in order to become more competitive on this market strand.

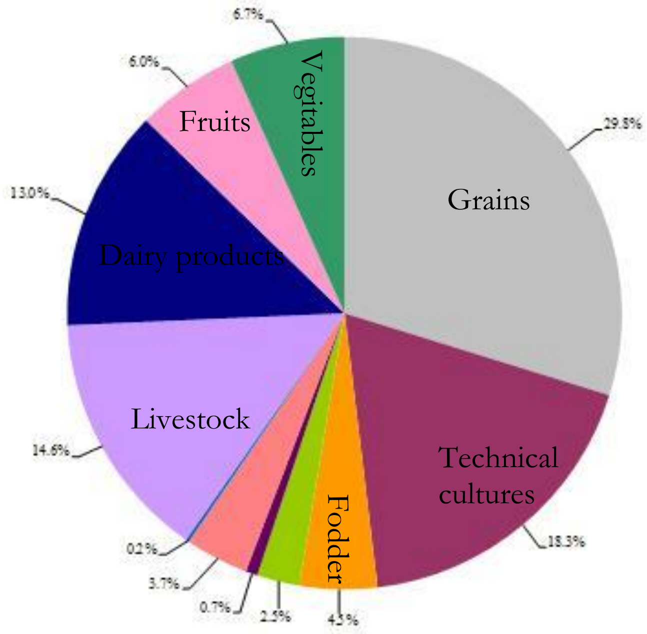
Services and non-agricultural, non-separable, secondary activities
Contribution of services to the total agricultural gross output is increasing and thereby market opportunities within the agricultural services are widening. Non-agricultural, non-separable, secondary activities have shown fairly stable development in the share of the total agricultural output which, as well, indicates market potential.

Market trends

Bulgarian agriculture has progressed, however efficiency and competitiveness need to be improved in order to withstand the competitive pressure within the EU. Recent developments in the sector gave an impact on the sector-related food processing industry and the quality of the products.

According to the statistics of NSI, the real index of profit in the Agricultural sector has increased by 8,7% on year to year basis, while the gross operating surplus has risen by 10,4% which is accounted on the more subsidies that have been acquired (subsidies have increased with 191 million leva).

Structure of final production in 2012:



Organic Food

Data for 2012 shows that there were 30 000 ha registered for planting organic cultures which is twice as much compared to 2011.

Approxiamately 95% of the bio products are exported. There are 2800 licensed bio growers.

The products that are most exported and demanded are those of honey and bee origin so it is no surprise that the certified beehives are 85 000. The other most popular products are rose and lavender oils, organic strawberries and raspberries.

Strengths:

The biggest farm for production of cucumbers for the Balkan Peninsula is also situated in Bulgaria.	
EU Member?	**YES**
Cost of Agricultural Land:	**250 Euros per decare (1000m^2)**
Cost of Construction:	**300 Euros per square meter**
EU funds access:	**YES**
Workforce Availability:	**WIDELY AVAILABLE**
Worker cost per hour:	**1-2 Euros**
Irrigation infrastructure:	**VERY GOOD but quickly improving!**
Transportation infrastructure:	**VERY GOOD but quickly improving!**
Operational costs:	**LOW**
Traditions in agriculture:	**VERY STRONG**

Source: Invest in Bulgaria Agency

Conclusions and recommendations

In general terms, the quality level and competitiveness of the sector remains below the average for EU. The problem of Bulgarian agriculture is not the lack of subsidies but the over-subsidized competition in the EU.

At the same time recent development indicates that steady progress has been achieved and changes in agriculture seem to be on the right track. Increased investments and human resources training and education contribute positively. The agricultural market develops dynamically and has started to outline market diversification. All this provides sound basis and good opportunities for Danish companies, presenting advanced technologies and specific know-how, to enter the Bulgarian agricultural market and operate successfully.

Danish companies will be able to take advantage of the good geographical location of Bulgaria and the relatively low labor costs when considering outsourcing and expansion.

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