MINISTRY OF FOREIGN AFFAIRS OF DENMARK
THE TRADE COUNCIL

FOOD PRODUCTS SECTOR
BULGARIA

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Sector: Food Products

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Abstract:
The Bulgarian food processing industry continues developing and growing, using the domestic competitive advantages such as good access to raw materials and low labor costs. Moreover, the possibility for start-up cooperation and joint ventures with existing producers can make the penetration on the Bulgarian market easier.

Introduction

Food processing is one of the historically traditional sectors of the Bulgarian economy. The importance of this sector is determined by its share in the total industrial output, which in recent years amounted to over 20%. The Food and Beverage Industry is the largest and most dynamic sector in the Bulgarian economy. The industry is characterized by a high degree of export and multiple products on a strongly competitive external and internal market.

Specific for the industry is the work with numerous materials and products with limited expiry dates as well as the necessity for highly effective manufacturing, transportation and logistics activities. The companies in the industry are also characterized by complex organizational structures and business processes, a large number of staff as well as the need to observe numerous regulatory requirements in respect to the quality of the end products.

Market Overview

According to the National Statistical Institute's Household Survey data for 2013, Bulgarians spend approximately 33.2% of their income on food and soft drinks, and a further 4% on alcoholic drinks and tobacco. On average, the data shows that Bulgarians consume mostly bread and other baker's wares the most –around 9.2kg per person a year, followed by 11kg of eggs, 4,8 kg of fruits and 5,3 kg of meat and other meat products. Another significant trend is that Bulgarians tend to consume mostly poultry which is around 22,2 kg per household (average size of 4 people) followed by pork with 17,8 kg and minced meat around 18.2 kg.

Bulgaria's food industry has benefited from a substantial amount of foreign investment in value-added food processors, particularly in the dairy, confectionery and bakery sectors. Most recently, some Romanian companies were reportedly mulling moving their production bases to Bulgaria, in order to take advantage of the more favourable tax and business climate there.

Since 2009, the European Commission has approved 9 promotional programs at total that were suggested by the Bulgarian Cluster Associations and their value is estimated to be 32mln. euro. Three of them are for promoting dairy products in Germany, Spain, Russia, Brazil, Australia and UAE, 2 programs are directed to wine promotion in China, Russia, USA and Australia and 1 program is for promoting canned fruits and vegetables in Germany, Poland and Romania.

Nonetheless, the food industry remains fragmented with concentration only evident in a few branches of the industry. Although multinationals are among the largest food and drink companies in Bulgaria, the bulk of market share continues to be held by SME domestic operators due to their price competitiveness. However, recessionary and competitive pressures, coupled with the requirement to comply with EU manufacturing guidelines, are driving further industry consolidation.

Domestic producers have been hit particularly hard by the financial crisis and subsequent global economic downturn. Many responded with a massive scaling back of production, with a number suffering from deterioration of their financial positions. This loss of productive capital will make it more difficult for Bulgarian firms to respond to the eventual improvement in domestic and external demand. The expansion of discount operators in the country and the still-high unemployment levels will, to a degree negate inflation-driven value increases.

Overall, prices of production on the Bulgarian market have increased with 2,6%

SWOT Analysis

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Strengths	***Opportunities***
- Bulgaria provides a cheap manufacturing base, which had attracted Western European companies that needed to reduce production costs and expand into new markets. - Due to large investments, a process of modernization has begun - Variety of goods, packages, types and assortment - The new government has started taking precautions to fight back frauds with EU funding money - Integration of controlling departments	- Accepting the cluster as being very active and perspective partner in EU - Establishing long-lasting interconnection between companies - Acquiring and keeping the interest towards well-known products - The food and drinks market is unsaturated and fragmented, providing plentiful growth opportunities for key domestic and foreign players.
Weaknesses	***Threats***
- Offering goods and products that do not comply with EU standards for quality and ingredients - Many small food-processing companies are unable to comply with EU regulations and are closing down, negatively impacting on sector growth	- Problems with severe EU rivalry in the sector - Rivalry causes prices to fall under the accepted minimum - Political and administrative push while making decisions - Strong influence of the European pricing policy

Dairy Market Segment

Bulgaria boasts a relatively dynamic dairy industry, supported by high per capita consumption of dairy products. Compared to other major EU producing countries, the production costs are significantly reduced, and all it takes is good transportation to the EU open market, which Bulgaria is a part of.

Most of the Bulgarian milk producers have restructured their farms in order to comply with the EU requirements and be able to sell milk to the dairy farms.

Following the EU accession, a number of foreign companies acquired local players. The leading company in drinking milk

products in 2013 is Obedinena Mlechna Kompania AD with a share of 31% in value. It is followed at a distance by Nestlé Bulgaria, which commands a 6% value share. The remaining companies within the top five ranks are My Day OOD, Meggle Bulgaria OOD and Danone Serdika AD. The combined share of the top five companies is 51% and there are more than 30 companies in the lower ranks. This indicates the fragmented nature of drinking milk products in Bulgaria. There are numerous small companies with regional presence only which are distributing their products through the independent retailers' channel.
A positive tendency in the milk processing industry is the consolidation of the dairy farms. There are 221 authorized milk processing facilities.

Drinking milk products is expected to post nearly flat value growth during the forecast period, compared to the 2% value increase over the review period. Milk and flavoured powder milk drinks are expected to contribute chiefly to the value decline. Milk will rely on its limited consumer base for development – the population of Bulgaria is forecast to shrink by 250,000 people by 2018, which will provide a limited consumer base to purchase this staple product. In addition, unlike yoghurt, milk has limited prospects for new product development, which will also affect the value prospects. Although currently the market is very underdeveloped in terms of lines with added health benefits in the form of vitamins and minerals, the consumers are quite sensitive about having to pay more for such intangible features.

Yoghurt recorded a healthy value increase in 2013, as compared to the total dairy market rise of 4% in value. This is an excellent result because yoghurt and sour milk drinks is a well-developed category but still managed to introduce numerous new products, as compared to the other dairy subcategories.

Cheese is not only one of the most traditional dairy products in the country but it is a essential for many Bulgarians. It is eaten on a daily basis and its consumption is deemed as both healthy and easy. The development of cheese in Bulgaria in 2013 was shaped by the recovery after the sharp slowdown in volume growth recorded between 2009 and 2010. The latter was provoked by product integrity issues and also by the economic crisis. The state controlling bodies discovered that many products labelled as cheese actually contained a mixture of dairy ingredients and vegetable fats and the issue was debated in depth in the press. In response, many consumers opted to source cheese directly from non-commercial sources in villages. Others were determined to purchase from non-commercial bodies because the economic crisis with high unemployment and job insecurity determined they sought the lowest cost products.

Other dairy encompasses a variety of products – cream, dairy-based desserts, chilled snacks, condensed/evaporated milk, fromage frays and quark and coffee whiteners. The development of these categories varied in 2013, depending on their maturity. The most developed segments with a low degree of innovation - fromage frays and quark and condensed/evaporated milk, posted the lowest growth rate.

Imports: In the past imported cheese was usually priced much higher than local product. Nowadays, however, certain types of cheeses are comparably priced and compete successfully with local products. Imports were sourced almost entirely from the EU (92,753 MT or 99.8%) with Germany, Poland, Romania, and Hungary the main trading partners.

Over the January–July 2013 period, dairy product imports amounted to 55,519 MT or 7% more on year-to-year basis. The largest growth in products imported is registered for cheeses, non-concentrated milk and cream. At the same time, imports of concentrated milk/cream were down which would relate to the higher price offered for these products at the EU level. Poland is now the leading exporter to Bulgaria, followed by Germany, Romania, and Hungary.

Exports: In 2013, growth in dairy products exports continued and the total dairy products exports grew by 16%, to 48,000 MT compared 2012. Total export value grew by 10%, to 123 million USD, due to lower average prices or by 5 %.

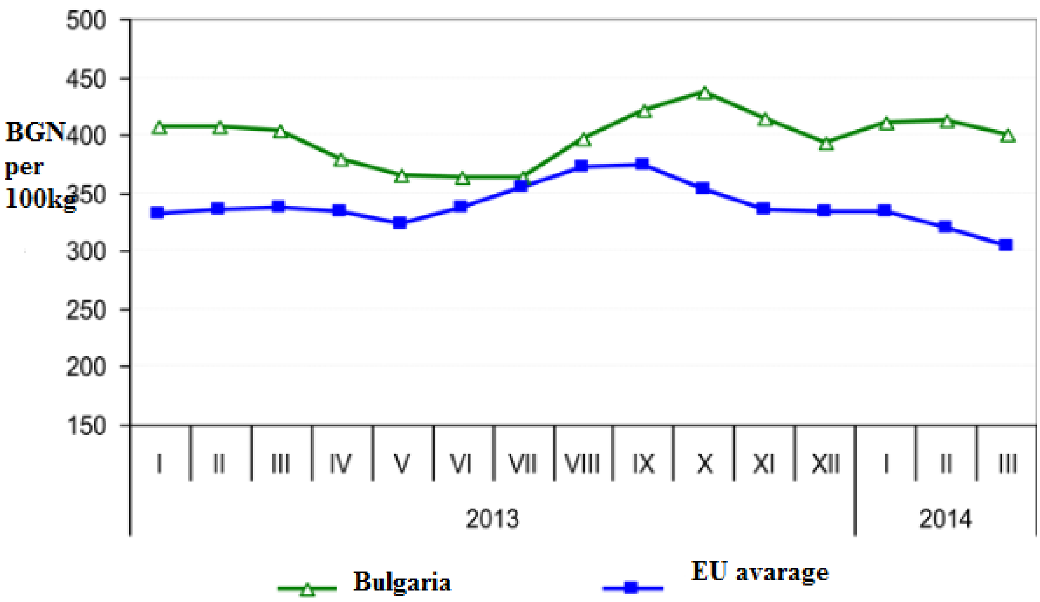
EU-funded promotional programs also contributed to this trend. The EU accounted for 83% of total dairy exports with an annual growth of 17.3 % vs. 2012 (38,830 MT, mainly to Greece (19,149 MT), Romania (10,289 MT), Germany (2,270 MT) and Spain (2,101 MT). Exports to the third countries also grew by 10% to 7,862 MT (USA, Lebanon, and Australia). More than half of exports were cheeses 23,494 MT as this represented 2.2% growth.

The twenty biggest milk facilities account for employing 3,7 thousand people at total.

Meat Processing

Bulgaria has a long tradition in livestock breeding and meat processing. Local producers use some unique recipes for salami, flat sausage (soudjuk) and other meat products. At present, the country holds the protected geographical indication for an authentic product: the flat sausage from Gorna Oryahovitsa (Gornooryahovski soudjuk), and is in the process of receiving the EU protected geographical indication for 7 more meat products.

The meat processing industry features 65 plants processing red meat, 30 white-meat slaughterhouses, 283 meat processing plants and meat factories for automated meat cutting, or a total of 378 companies in the industry.



Changes of pork prices over the last period.

It is anticipated that there is going to be a rise in the demand of all kinds of meat and it is estimated that quantity from 2009 will be at the same level at the beginning of 2015 due to the fact that only then it is expected that Bulgarian economy would stabilize enough to support substantial growth. Most probably, the significant increase of demand would come in the period 2015-2020 at a level of 470 000 tones for all kinds of meat.

In conclusion, at the moment the market for all kinds of meat is saturated and stagnant, however, in the near future it is expected to grow.

Packaged Food

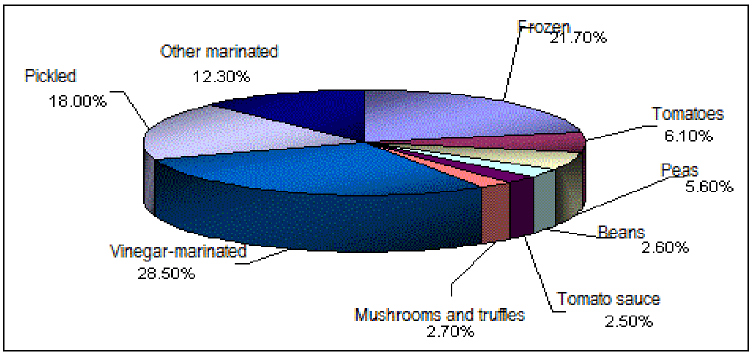
In 2013, packaged food's retail value is set to increase by a healthy rate after some marginal growth seen over the beginning of 2012. The economic crisis reflected on the purchasing parity of Bulgarian consumers, which affected their spending patterns. Between 2009 and 2010, consumers favoured price promotions and reverted to buying economy brands but in 2011, 2012 and continuing in 2013, purchases of packaged food display signs of recovery.

According to Euromonitor, in 2013, packaged food evolved along two trends: on the one hand, demand for traditional staples such as unpackaged artisanal bread, plain yoghurt, and vegetable oils and fats continued, albeit with slowing rates. On the other hand, new products were launched with specific value and healthy characteristics. This trend gave a push to fat-free and semi skimmed fresh/pasteurised milk, packaged hard cheese, other dairy products, packaged/industrial bread and olive oil. While consumers continued to monitor closely how much they spent during their weekly shopping, they were encouraged to trade up.

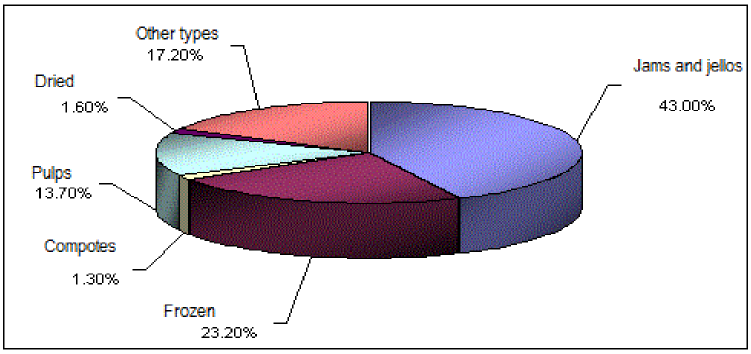
Artisanal production of bread, pastries and ice cream explain the high share of these producers in packaged food. Additionally, the second to fifth positions are occupied by multinational companies and their competitive ranks are predicted to remain unchanged. In 2013, they engaged in launching new products and grounding their positions. Only one of them – Chipita Bulgaria AD is set to manage more notable share growth.

Packaged food is expected to accelerate its growth rate over the forecast period but the value-for-money demand trend is also anticipated to remain very strong. Consumers are already used to buying at reduced prices and free product promotions and it will be very difficult to change this behaviour. Moreover, private label will place additional price pressure on packaged food and take share from weaker local competitors.

Canned Food



Structure of production of vegetable cans



Structure of production of fruit cans

For the last two years, the production of cans is estimated to be approximately 86-87 thousand tons. The data reveals that 75% of them are accounted to the vegetables and the trend is increasing, while in canning fruits the rate is 25% and decreasing.

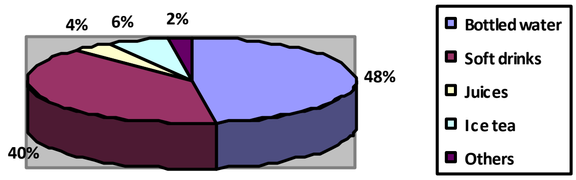
Some of the big players of canned food markets are: Adela, Deroni, Nash Dom, Varna Plod, Kjustendilski Plod and Elvira.

There are 9% of the all employees working in the food sectors that are employed in the canned industry.

Beverages

Bottled water and carbonates dominate the soft drinks sector. Bulgaria places highly in the EU in terms of per capita consumption of soft drinks, indicating the strength of the market, although this is clearly dependent on the wider economic performance. Overall, the trend shows increase with 3.75% of sales of soft drinks on year-to-year basis.

Consumption of soft drinks for 2013 in Bulgaria



Brewery Market Segment

Bulgaria is on 18th place in Europe regarding the consumption of beer per capita. Beer accounts for around 40% of total alcoholic drink value sales and around 80% of volume sales in Bulgaria. Overall, there are 2500 employed people in the sectors of brewing and over 8000 people in the related sectors of delivery.

The data form the National Statistics Institute shows that 96% of the consumed beer in the country has been produced in Bulgaria. The consumption of beer per person per year is estimated to be 73 litres. There are more than 80 assortments of light and dark beer produces as well as more than 10 types of beer mixtures offered. Since the beginning of 2013, most of the brewing companies have expanded their portfolio with about 30 new blends of beer, including the popular fruit mixes. The Union of Brewers in Bulgaria, SPB, is a representative organization of all beer companies in the country. The production-technical capacity of all SPB members comprises of eight beer producing plants, owned by “Bolyarka”, “Britos”, “Zagorka”, “Kamenitsa”, “Carlsberg Bulgaria” (which holds 27% of the market share) and ”Lomsko Pivo”, two independent malts producing factories, one mill, specialized in hop pellets production, two beer-houses-mini breweries, two research institutes and 11 companies, distributing materials and equipment for the industry.

In 2013 there were 5,116 million hectolitres sold which is 1% less than the sales in 2012. Beer producers together invested approximately 56.7 million levs (29 million euro) in fixed assets in 2013 for factory renovations and process optimization.

Brewers increased their combined product portfolio by three new variations of traditional brands and 11 new packaging of beer.

PET bottles accounted for 60.5% of 2013 beer sales versus 25.5% for glass containers and 8.5% for cans.

Coffee and Tea Market

Coffee is hugely popular in Bulgaria and sales have steadily increased over recent years. Consumers are shifting from consumption of bulk coffee to pre-packaged branded coffees and they are increasingly demanding fresh and quality instant coffee varieties such as espresso and mocha blends, especially on-trade.

The major players in the Bulgarian coffee and tea market are Mondelez and Nestlé, while American coffee shop chain Starbucks and Costa. Mondelez has a local coffee-processing factory, which is engaged in the production of Jacobs's coffee brands (Aroma, Espresso and Monarch, as well as Monarch Intense) as well as Nova Brasilia. However, the newly created joint venture between Mondelez and Jacobs would restructure the market entirely but this process has not started yet and will be ongoing until mid-2015.

The desire to consume healthy hot drinks and avoid high caffeine intake underpinned the positive performance of tea in 2013. Fruit/herbal tea accounted for an 89% share of retail volume sales in 2013. Other tea types (black and green) have found it hard to make a significant impact. Black tea is associated with high caffeine content, while its taste is perceived as inferior to that of coffee. However, green tea is making inroads in Bulgaria as its consumption is associated with health benefits.

Bioprogramma is the leading company, with 18% share of retail value sales in 2013. This typical domestic company uses mostly local inputs in its tea production process. Its leadership position could be accounted to the wide product range, which covers every type of tea, although the main strength lies in fruit/herbal varieties. Bioprogramma's share fell by 3% compared to 2012 because consumers shifted to more modern fruit/herbal tea combinations, such as exotic fruit mixes by Twinings and Pickwick.

Tea is expected to post a 3% retail volume growth for 2104, though this will not lead to a fundamental change in consumer perception. Tea is not anticipated to change its development path, as producers have not engaged in consumer education to promote the perceived benefits of tea drinking.

Spirits

Bulgarian consumers view strong alcoholic drinks as a luxury and are prepared to pay a premium for high-quality goods for special events and as an occasional treat. However, frequency of purchase is falling, with consumers now more likely to opt for cheaper, lower-alcohol drinks such as beer and wine.

Leading companies in the spirits segment include domestic alcohol producers also active in other sectors, namely Carlsberg Bulgaria, Zagorka (Heineken) and Kamenitza (CVC Capital Partners), as well as more spirits-focused producers SIS Industries and Vinprom Peshtera. Vinprom Targovishte is the leading wine producer and is also active in the spirits market, which ranks it within the top 10 players in the overall alcoholic drinks market. The traditional Bulgarian spirit is plum brandy (rakia), although this has been losing popularity among younger generations.

Wine Production Segment

Winemaking in the territory of modern Bulgaria can be traced back as far as the late Stone Age, when the population of the Eastern part of the Balkan Peninsula started cultivating wild vines and created the first local breeds. In fact, the development of viticulture in the Bulgarian region was mentioned even in early Greek mythology. Legend has it that Dionysius, Greek god of wine and agriculture, began the winemaking tradition in Bulgaria by bringing a tiny root of vine to the Thracian valley—the tradition then

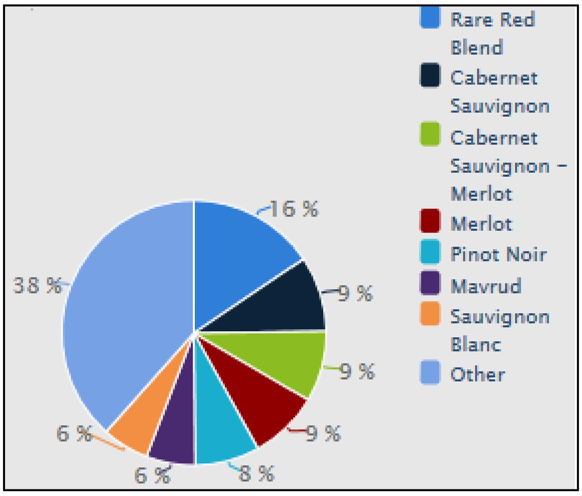
spread to other parts of Europe.

Today, Bulgaria's established vine growing and wine producing traditions closely follows those of the Old World—rivalling products from France, Italy, Spain, and Greece. Bulgaria is the second largest exporter of bottled wine in the world, second only to France; it has four times more area devoted to growing Cabernet Sauvignon than California does.

The wine industry is the most competitive sector of the Bulgarian food industry. According to statistics of the Bulgarian National Vine and Spirituous and Beverages Research Institute (EAVW), there are 246 registered wine producers in Bulgaria. More than 80% of Bulgaria's wine export goes to countries like Great Britain, the U.S., Canada, Norway, the Netherlands, and Japan. Newly targeted markets include India, China, and Hong Kong.

Bulgarian wine producers apply traditional classical techniques alongside modern production technologies, according to the wisdom of wine experts from industry leaders like France. Of course, a good wine requires a good grape. That is why Bulgaria adopted a national program in 2005 for wine growing and ever since it works on the main goals to grow new vineyards, establish small boutique wineries, improve the quality of Bulgarian wines, and intensify competition both domestically and globally.

According to a statement by Bulgaria's agriculture ministry in 2013, a new national program of assistance for the wine industry, spanning from 2014 to 2018, foresees the spending of more than 130 million leva. At the time, the government announced its intention to hold promotions of Bulgarian wines in the country's embassies in various parts of the world.



Wine production in Bulgaria for 2013 reached 200 mln. litres, which indicates 45% rise, compared to the 127 mln. litres in 2012, according to EAVW.

According to the NSI, the consumption of wine on the internal market has increased from 4.4 in 2012 to 4.7 l in 2013 per household. The domestic market, consumption of wine locally increased 10 per cent year-on-year in 2013, and further growth was expected in 2014. The sales of red wines dominate, while the import of white wines is around 65%. This trend is present due to the fact that Bulgaria has long-lasting traditions in red wine making and its quality is superior to in the white wine production.

Conclusions and Recommendations

Overall, in 2014 food consumption is expected to grow with 0.6%, while alcoholic drinks sales volume growth is expected to be 0.7%. All conditions for production of quality dairy and meat production in Bulgaria are present. Strong traditions, excellent climate, availability of quality workforce and low operational costs make this sector extremely attractive to investors. Compared to other major EU producing countries, here the production costs are significantly reduced and all it takes is good transportation to the EU open market, which Bulgaria is a part of. Investing in both physical and human capital will strengthen production and the capacity for competitiveness.

Another area of possible success is the organic products and specialization within organic farming. The demand for organic food has enlarged significantly in many western European countries but this market trend is also being followed, though in smaller proportions, by the Eastern European countries. The assortment of the ecological food offered in Bulgaria grew from 1400 to 2000 articles while the number of companies dealing with the import and distribution of such food tripled.

The food industry is expected to grow further if utilization of raw materials and low labor costs are optimized. Moreover, the possibility of starting up cooperation and joint ventures with existing producers can make the penetration of the Bulgarian market easier. Investing in existing food producers could open the possibility to enter and strengthen the Bulgarian market position not only in the EU, but on the world market as a whole.

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