Food processing in Bulgaria

Commissioned by the ministry of Foreign Affairs
FOOD PROCESSING IN BULGARIA
OUTLOOK ON: FRUIT & VEGETABLES, DAIRY, MEAT, BAKERY, POTATOES
INTELIAGRO, 2016
Commissioned by the Agricultural Department of the Embassy of The Kingdom of the Netherlands in Bulgaria

Kingdom of the Netherlands
Executive Summary

- Food and beverage industry produces nearly EUR 5 bln (including beverages and tobacco) or and 3.5% of Gross Value Added in the economy of Bulgaria;
- Investments in food industry had more than 10% annual growth in 2013 and 2014. The post-crisis recovery in investment activity is supported by one of the highest operating surplus rates among EU countries;
- Processors will increasingly demand any kind of technologies and organizational practices that reduce labor dependence to tackle insufficient work force and growing personnel costs;
- The number of agricultural producers who start processing their own produce is constantly increasing, driving the market for small scale equipment;
- The consistent growth in personal income and HoReCa development help forming more sizable premium food market niche. Apart from that, Bulgarian food market is still characterized by severe price competition;
- Food industry is becoming more and more important part in the export structure of the country. The five sub-sectors in the scope of the report made EUR 546 mln export sales in 2015 – twice as the amount in 2007 and 7.4% of the total agri and food export. Import in these categories had value of EUR 475 mln in 2015;
- Fruit and vegetable food production increases constantly since 2011. Canned products have the largest share in both categories. The number of processors also follows an upward trend. Bulgaria is net exporter in F&V products;
- Dairy production has increased after 2011, reaching its pre-crisis level by 2015. Fresh milk production records the highest increase, while yogurt remains the symbol of the industry. There is a clear trend of production diversification in dairy processing - various smoked, spread, soft, hard, moldy, spiced, etc. cheese, flavored milk and yogurt, constantly increase their share on the stall. Buffalo and sheep cheese remain the most well – perceived dairy products on the international market;
- Meat processing production remains stable during the last 7-8 years. However, export increases, especially after 2012, reaching 8-9 ths. tonnes and EUR 27 mln. – more than twice as high as in 2012. The production of other bakery products such as biscuits, wafers, rusks, crackers, etc. has firm growth and leads to net export position by a significant margin;
- Despite the small scale, potato processing is developing rapidly in the last four years, leaded by production of packed fresh potatoes (peeled, chilled, sliced or not, on cubes, spiced, etc.) directly for consumer or for HoReCa sector.
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Foreword

As agricultural counsellor of the Netherlands to Bulgaria and Romania I and my team signal and promote business opportunities for Dutch agri-business and create connections between Dutch and local parties. Knowledge of the market and the latest trends is the key to identify existing and potential opportunities.

At the moment, Bulgaria shows a steady general macroeconomic growth and rising consumer demand. For more insight in the effect of this trend on the food processing business we commissioned InteliAgro with a survey on the food processing industry in Bulgaria.

I am grateful for the input our team received from the relevant Dutch branche organisations in the set up of the survey. Their feedback helps to make sure it provides interesting information and contacts for Dutch businesses. As a result, the survey gives an overview of the general trends in the Bulgarian food processing industry, focusing on the latest developments in five sub-sectors: fruit and vegetables, dairy, meat, bakery and potatoes. The general trends are promising, showing a growth in sales, production and an upwards trend in investment across most sectors.

I trust this Food Processing Industry report will help the Dutch food sector in making their assessment of the businesses opportunities in Bulgaria and I invite them to start or expand their business in Bulgaria.

Emar Gemmeke,
Agricultural counsellor
Embassy of the Kingdom of the Netherlands
Introduction

The importance of food industry in the Bulgarian economy is determined by its share in the production value, foreign trade and employment, as well as its interdependence with other key sectors in the country – agriculture, manufacturing, tourism, transport and logistics.

This report presents an overview of the general trends in the processing and the specific development of five sub-sectors – fruit and vegetables (F&V), dairy, meat, bakery and potatoes. It includes key production, consumption and trade variables. The research period (2007-2015) has been extremely dynamic considering both political and market factors. The EU accession in 2007 put Bulgarian food producers in a completely new environment – stricter regulations, severe competition, but also new investment and trade opportunities. The global economic downturn followed by a long period of stagnating domestic demand has also left its mark in the last decade.

Food industry had to deal with high price volatility of most of the agricultural commodities – from historical peaks to steady cooldown.

Despite the unstable conditions, all five sub-sectors follow an upward trend in recent years. Intensified export, increase in household income, growth in the HoReCa sector and changes in consumer preferences are among the driving forces of the production increase and product diversification. Under these circumstances, we consider the outlook for investment in the sector as positive. The evaluation of the perspectives should take several general trends into account – enhancement of existing large enterprises, supply chain shortening (development of processing at farm level), reduction of dependence on labor force, more sustainable production practices and formation of a premium food niche in the domestic market.
Overview and Opportunities

Food processing industry plays an important role in the Bulgarian economy. With nearly EUR 5 bln (including beverages and tobacco) it produces 5.3% of the total annual output, compared to 3.6% for EU-28. The gross value added of the sector has been growing continuously and reached EUR 1.3 bln in 2014 or 3.5% of the total in the economy (2% EU-28 average). It engages over 111,000 employees and self-employed people – 3.2% of the total employment (2.1% EU-28 average)\(^1\).

The industry has been affected by several economic and public policy factors of various significance. The EU accession in 2007 was undoubtedly the milestone that put food processing in a completely new environment. Bulgarian operators faced challenges related to both much stricter food safety regulations and lack of competitiveness on the Common market. Many of them couldn’t deal with the new situation and had to close. Within the course of several years the food processing in Bulgaria has passed through a period of restructuring and consolidation. Those who stayed on the market had to invest intensively in technologies, know-how and marketing. Within a short period, such large expenditures decreased their price elasticity and potential for further development. About a decade later, a great part of these investments has been completely or nearly paid off. The companies are now enabled to make new investment plans in order to increase their market share and “catch” an upward trend in the business cycle. This could encourage demand for new equipment and innovative technologies.

Investments in tangible goods in the sector rose, reaching EUR 239 mln in 2014. The share of total investments in food production value added is the second largest in the EU and more than two times higher than the EU average. Intensive investment is also supported by the high operating surplus in the sector – EUR 367 mln, i.e. more than 9% of the total turnover.

In addition, in the years following 2007 Bulgarian agriculture went through a significant restructuring. Grain and oilseeds production increased, while animal, fruit and vegetable production decreased. This disparity caused severe issues regarding the raw material base and opened the door for foreign commodity deliveries. During that time processing capacity considerably exceeded the volume of raw material produced domestically by the agricultural sector. Fortunately, in the recent years this imbalance has been slowly but steadily overcome. Output and areas (animals) in F&V and some of the meat and dairy branches have increased. Bakery industry has strong commodity basis (except for durum wheat).

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\(^1\) Eurostat – National accounts aggregates
Public support has played a role in raising the interest in food processing among entrepreneurs. F&V and livestock breeding have been prioritized in the Bulgarian Rural Development Program (RDP) 2014-2020. Sub-measure 4.2 of RDP provides up to 60% financing for processing projects valued between EUR 15,000 and 3 mln. It is directed to modernization and intensification of existing enterprises or establishment of new ones (including and prioritizing farmers who want to close the production chains). The last regular 4.2 call will take place in the beginning of 2017.

Insufficient labour force is a serious obstacle to the food industry. In the long run, this challenge is more likely to grow rather than subside. In addition, personnel expenditures tend to increase permanently and the average costs per employee have almost doubled since 2007. Therefore, processors will increasingly demand any kind of technologies and organizational practices that reduce labor force dependence.

There are several distinctive market trends in the sector. On one hand, consolidation is observed – the big are getting bigger. Some processors have already diversified their activities to multiple trademarks and sub-sectors - fruit, vegetables, dairy, meat and bakery, turning themselves into companies offering a wide range of food products. A well-known example of such business development is “Bella” Holding, which is consistently ranked among the Top 10 largest food companies in Bulgaria. On the other hand, there is a tendency to shorten supply chains. A famous example is “Dobrev” dairy that sells produce through its own chain of 7 stores. Currently more and more farmers set up their own processing installations (including under the RDP 4.2 sub-measure) and some of them sell directly to consumers. Thus, they increase the value added and get more freedom in timing and marketing the sales. Moreover, the demand for boutique and premium products is steadily increasing in larger cities. It is a niche for the sales of small scale innovative equipment and technologies, guarantying high quality food production. On-farm processing is most popular in the dairy sector, as well as in F&V and meat sectors.
European “Go Organic” wave didn’t skip Bulgaria. At the beginning of 2015 the operators processing organic agricultural raw materials were 132. During the last five years, their number has grown at one of the fastest rates in EU and only in 2014 40 new companies were established. Despite the growing consumer interest, the size of the Bulgarian organic market is still negligible. Meanwhile, some of the bio processors have already entered foreign markets (mainly EU – the second largest organic market in the world) and report rapid sales growth.

<table>
<thead>
<tr>
<th>Organic processors in EU</th>
<th>Country</th>
<th>2011</th>
<th>2015</th>
<th>Δ 15/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>5 592</td>
<td>12 641</td>
<td>126%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>7 427</td>
<td>11 198</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>8 511</td>
<td>9 497</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>2 747</td>
<td>3 082</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Great Britain</td>
<td>2 177</td>
<td>2 487</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>NA</td>
<td>2 118</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>1 547</td>
<td>1 635</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>949</td>
<td>1 138</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>653</td>
<td>855</td>
<td>31%</td>
<td></td>
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<tr>
<td>Belgium</td>
<td>649</td>
<td>844</td>
<td>30%</td>
<td></td>
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<tr>
<td>Denmark</td>
<td>507</td>
<td>787</td>
<td>55%</td>
<td></td>
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<tr>
<td>Finland</td>
<td>254</td>
<td>648</td>
<td>155%</td>
<td></td>
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<tr>
<td>Portugal</td>
<td>NA</td>
<td>515</td>
<td>NA</td>
<td></td>
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<td>Czech Republic</td>
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<td></td>
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<tr>
<td>Poland</td>
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<td>484</td>
<td>94%</td>
<td></td>
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<tr>
<td>Hungary</td>
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<tr>
<td>Croatia</td>
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<tr>
<td>Slovenia</td>
<td>103</td>
<td>236</td>
<td>129%</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>192</td>
<td>197</td>
<td>3%</td>
<td></td>
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<tr>
<td>Bulgaria</td>
<td>68</td>
<td>132</td>
<td>94%</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>88</td>
<td>120</td>
<td>36%</td>
<td></td>
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<tr>
<td>Estonia</td>
<td>43</td>
<td>109</td>
<td>153%</td>
<td></td>
</tr>
<tr>
<td>Luxemburg</td>
<td>NA</td>
<td>72</td>
<td>NA</td>
<td></td>
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<tr>
<td>Lithuania</td>
<td>70</td>
<td>67</td>
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<td></td>
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<tr>
<td>Latvia</td>
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<td>63</td>
<td>152%</td>
<td></td>
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<tr>
<td>Slovakia</td>
<td>47</td>
<td>56</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>NA</td>
<td>51</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td>1</td>
<td>9</td>
<td>800%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Eurostat

Organic products consumers require sustainable food production. Therefore, this niche needs innovative, often specific, technologies with high water and energy efficiency and improved waste management.

Bulgarian food consumption has some specific characteristics and trends. Basically, it follows two parallel but completely different lines. Bulgaria has the lowest absolute level of household income and, respectively, the lowest absolute food expenditures among the EU countries. Bulgarian households spend the highest share of their income on food. It is much lower than that at the beginning of the century, though. Consequently, food demand is extremely price sensitive and the price competition between processors is intensive. Thus, a substantial part of the mass production is based on outdated technologies, lower quality raw materials and, sometimes, cheaper substitutes and supplements.

Although the average income is still relatively low, it follows a steady upward trend. The highest income decile threshold has risen more than 2.5 times in eight years. In addition, the HoReCa sector is one of the fastest growing in the Bulgarian economy. These factors contribute to the formation and development of premium quality food niche (including organic), mainly in Sofia, Varna, Burgas, Plovdiv and some resorts. It requires modern technologies and practices at every production phase, as well as original recipes, minimum amounts of supplements and substitutes, excellent marketing, etc.
Another important trend is observed for food consumption. Traditionally, Bulgarians prepare homemade durable foods such as cheese, sausages, and F&V cans. Their share is constantly shrinking due to urbanization and gradual decrease in the number of small family farms. This reduction will continue to play supportive role to the industrial production.

The domestic market challenges mentioned above emphasize the importance of export for Bulgarian food processing. In 2007 the country entered one of the largest and wealthiest markets in the world, which has brought rapid growth in foreign trade turnover. Moreover, Bulgaria is close to other interesting markets in the Middle East, Asia and Africa.

In 2015 the five sub-sectors covered by this report had cumulative export value of EUR 546 mln or 7.4% of the total Bulgarian agricultural and food export. The figure has doubled since 2007. At the same time, the imports amount to over EUR 475 mln (9% of the all agricultural and food categories). The positive balance is due to F&V and Bakery trade, while Bulgaria is a net importer of dairy, meat and potato processed food.
SNAPSHOT

F&V PROCESSING

100 FRUIT PROCESSORS
134 VEGETABLE PROCESSORS

85,000 MT PROCESSED FRUIT
- Cherries, 35.4%
- Apples, 27.1%
- Peaches, 15.5%
- Strawberries, 2.8%
- Raspberries, 3.1%
- Plums, 7.3%
- Other, 18.3%

98,000 MT PROCESSED VEGETABLES
- Tomatoes, 35.4%
- Mushrooms, 3.3%
- Peas, 4.3%
- Potatoes, 7.2%
- Aubergines, 7.9%
- Peppers, 23.5%
- Other, 8.6%

70,000 MT FRUIT PRODUCTS
- Canned, 33%
- Juices, 17.3%
- Frozen, 10%
- Dried, 26%
- Other, 28.5%

78,000 MT VEGETABLE PRODUCTS
- Packed fresh, 2.6%
- Juices, 11%
- Frozen, 17.6%
- Other, 2.8%
- Canned, 65.9%

55 MLN € NET EXPORT

10 MLN € NET EXPORT
The EU accession in 2007 was marked by significant restructuring in the Bulgarian agriculture and sharp decrease in fruit and, especially, vegetable production. The inevitable result was decline in processing as well. In the subsequent years F&V processing slowly but steadily recovered. Fruits exhibit more considerable growth in terms of production whereas the number of vegetable processors increases faster. In 2015 100 operators were involved in fruit processing and over 130 - in vegetable processing (the highest number in the last 15 years). In order to overcome the problem with the lack of sufficient domestic raw material, some of the processors have established their own agricultural production. “Deroni” – one of the F&V processing leaders, has 285 ha own vegetable gardens. Thus, the share of imported vegetable raw material has remained below 10% since 2010. However, this is not the case with fruit processing where the share of imported raw materials (without citrus and bananas) remains close to 30%.

Fruit processing has nearly doubled since 2009 and reached 70,000 tonnes in 2015. One-third of it consists of canned products, including jams. During the same period this category has tripled its output. Frozen fruit seems to be the least volatile category with 10,000-15,000 tonnes annual production. Juices and concentrates also play an important role in fruit processing, but their production varies considerably.

Vegetable processing remained stable during 2010-2015. Canned products are essential for the sub-sector, accounting for two thirds of the 78,000 tonnes total output. Canned vegetables have also been a key driving force for the production growth in the last two years. Bulgaria produces approx. 12,000-15,000 tonnes of frozen vegetables and 9,000-10,000 tonnes of vegetable juices and concentrates per year. Besides, an increase of the mushroom production was recorded in 2014 and 2015.
The profitability and the investment activity in the F&V processing sub-sector could be assessed as quite satisfying. Since 2011 the gross operating surplus has remained around EUR 30-35 mln, which is more than 50% above the 2008 level, despite the economic downturn. This represents 11% of the total F&V processing turnover, which is above the food production average. The good operational results provide a strong investment base. The investments in tangible goods have surpassed the surplus from operating activities for the first time in six years, reaching EUR 36 mln in 2014. The F&V sector has the highest level of investment expenditures compared to value added of all sub-sectors covered by this report - 58%. It is also considerably above the food industry average.

Consumption

The household consumption of canned fruit has gradually decreased in both total quantities and per capita. In 2015 it reached 28,000 tonnes (4 kg per capita in households). On the contrary, the fruit juices recorded steady growth estimated at 17,000 tonnes (2.3 litres per capita) in 2015 - almost twice the volume in 2007. The household demand for fruit jams is relatively stable - between 2500 and 3000 tonnes. The canned and other preserved vegetables consumption also tends to decrease. The household demand for such products is 57-58,000 tonnes (8 kg per capita).

These trends are partly a consequence of the population decrease. In addition, the high availability and personal income growth cause substitution between fresh and preserved F&V. There is a long-standing tradition in Bulgarian families to prepare homemade fruit and vegetable products, mostly cans, as well as pickled foods and juices. Thus, the urbanization and the gradual fading of small family gardens contribute to the demand for industrially produced foods.
Foreign trade

Bulgarian F&V products export has increased permanently during the past 15 years reaching EUR 200 mln in 2015, about 2/3 of which - from fruit. The country is a net exporter of both processed fruit and vegetables.

The export of fruit products is well diversified. Approximately one fifth of its value comes from canned fruit, followed by frozen fruit, prepared nuts, juices, dried fruit, etc. Bulgaria is one of the largest exporters of temporary preserved (cocktail) cherries. The values of all categories, except juices, have increased consistently – most intensively for dried fruit – 23% 5-year average, followed by temporary preserved – 12%, and frozen fruit – 11%. Dried and temporary preserved fruit exhibit double digit average growth rate also in volume.

Canned products account for more than half of the export value of processed vegetables. Frozen and dried vegetables add another 40%. The export value in vegetables has risen far more slowly - with 3-4% 5ya growth, due to the pace of the canned and frozen products, whereas the dried vegetables value has more than doubled in five years. In terms of volume all categories are relatively stable with single effects in some years. The import of F&V products has also increased, especially after 2007, exceeding EUR 150 mln in 2015. Generally, slightly more than half of it is from vegetables. Canned products account for more than one third of the total fruit products import value and have approximately 7% 5ya growth in terms of volume.

A sharp increase in the import of different nuts preparations was observed in 2015, whose value is nearly one third of the total as well. The fruit juices also have a substantial share in the import structure. However, it is the only category where import has been relatively flat in the recent years and has even shrunk in terms of both value and volume, compared to 2007 and 2008. Canned foods account for 60% of the imported vegetable products. Their volume varies between 30,000 and 45,000 tonnes per year. The most intensive increase has been registered for dried vegetables, whose value has tripled in three year.

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DAIRY PROCESSING

215 PROCESSORS

523,000,000 LITRES PROCESSED RAW MILK
- Goat, 1.5%
- Buffalo (incl. mixtures), 0.6%
- Sheep, 3.6%
- Cow, 94.3%

BUFFALO MILK PROCESSING GROWS IN 5 CONSECUTIVE YEARS.
BUFFALO YOGURT AND CHEESE ALREADY HAVE A SPECIAL PLACE IN THE PREMIUM DAIRY MARKET AND FOOD TOURISM.

BUFFALO MILK PROCESSING TRIPLIES IN 9 YEARS.
SHEEP AND GOAT MILK PRODUCTS ARE DAIRY EXPORT FLAGSHIP AND BECOME MORE POPULAR ON DOMESTIC MARKET.

74,000,000 LITRES FRESH MILK PRODUCTION

226,000 MT DAIRY PRODUCTS
- Smoked & spread cheese, 26%
- Other, 2.9%
- Flavored yogurt, 4.9%
- Yogurt, 65.9%
- Cheese, 17.8%

113 MLN € EXPORT

173 MLN € IMPORT

MLN €
Bio Bulgaria is an organic food company operating under Harmonica brand, founded in 2006 - times when bio production in Bulgaria was still an exotic undertaking. It started its activity with a small dairy near Sofia, but its portfolio has gradually exceeded 60 products from different sub-sectors - fresh milk, yogurt, cheese, kefir, jams, peanut butter, honey, cold pressed fruit and herb syrups, wafers, wheat sticks and pretzels, tomato puree and mixtures, vinegar etc. Harmonica is particularly proud of its boza - a traditional fermented sweet drink made from millet, rye or spelt. With the exception of some of the milk processing, production is carried out by about 20 partners.

Bio Bulgaria’s business model combines traditional taste and recipes with innovative and sustainable processes at every production stage. Through its consistent quality policy, clear and distinctive labeling and active communication, the company aims at turning customers into followers and promoters.

Due to the still underdeveloped organic agriculture in Bulgaria, raw material supply sometimes presents a real challenge. Bio Bulgaria needs over 150 ingredients and in order to provide some of them it cooperates with the Dutch DO-IT, Tradin Organic and Ariza.

The company has registered rapid triple digit increase in sales in its first years, reaching EUR 2 mln. in 2015 and expecting another 50% growth in 2016. It receives half of its revenues from dairy products and boza. 95% of the total sales are on domestic market. In addition, Bio Bulgaria has huge potential for further development on it. Between 70 and 80% of the turnover are realized through modern trade retailers such as Metro and Kaufland. The company operates its own organic chain stores in Sofia - Biomag. The company’s export is carried out mostly under private brands. Achieving consumer recognition and building solid partnerships on foreign markets are a natural step forward.

W HARMONICA.BG
In the years preceding and following the EU accession Bulgarian dairy sector went through a period of consolidation and restructuring. Due to the increased sanitary requirements and lower overall competitiveness on the Common market, the number of dairy processors has almost halved during this period. Most of the dropped-out operators were small and technologically outdated. At that time, the dairy processing was also affected by the decline and difficulties in the Bulgarian stock-breeding, particularly the quantity and quality of the raw milk. The insufficient volumes were partially offset by increased imports.

Those companies that stayed on the market had to make substantial investments in modernization, product diversification and marketing. Such expenses under the conditions of an intensive price competition have made them inflexible and have limited their potential for further development after 2007.

Dairy production has increased after 2011, despite the decrease in the total number of processors. In the last two years, the number of enterprises has also stabilized and many dairy farms established their own processing.

Fresh milk production records the highest increase and has the most consistent growth trend in the sector. The urbanization and the sharp decrease in the number of animals bred for own consumption by micro farms and individuals favored the industry. The volume of packaged fresh milk has increased by 50% in the last ten years, reaching 75 mln litres in 2015.

Yogurt is not only the symbol of the country's dairy sector, but also one of the most typical parts of the Bulgarian food production and cuisine. Bulgaria has advanced know-how in the production technology and an abundant range of cultivated yeasts. Between 130 and 140,000 tonnes (including all varieties) are produced by more than 100 operators each year.
Cheese production is traditionally dominated by two types – brine white and yellow cheese (“kashkaval”). The operators and the produced quantity have gradually increased in the recent years. In 2015 approximately 77,000 tonnes of cheese were delivered on the market by 187 domestic processors.

There is a clear trend of production diversification in dairy processing. Various smoked, spread, soft, hard, moldy, spiced, etc. cheese, flavored milk and yogurt, and other specific products constantly increase their share on the stall. Generally, these are niche products with considerably higher margins. Dairy processing has also developed in terms of type of raw milk used. Goat milk processing has increased for five years in a row and has almost doubled during this period, reaching 8 mln litres in 2015. Sheep milk also exhibits a slight positive trend, interrupted in 2015 due to worsened epizootic conditions among animal population. An interesting niche in Bulgarian dairy sector is the processing of buffalo milk. Its volume has risen consistently after 2008 and reached 3 mln litres in 2015. Many of these specific products are well accepted on the foreign market.

Gross operating surplus in dairy processing has increased in two consecutive years after 2012 in both absolute and relative measures, reaching EUR 35 mln – 7% of the total sub-sector turnover. The tangible asset investments have surpassed the operating surpluses in three straight years, reaching EUR 38 mln in 2014. The 52% investment to value added ratio makes dairy processing one of the sectors in the Bulgarian food industry with most active investing.
Consumption

Dairy products are a traditional part of the meal of Bulgarian households. The largest part of the market is concentrated in yogurt and fresh milk, both being relatively stable with total household consumption of 80-90,000 tonnes and 60-65,000 tonnes, respectively. It is worth noting that products with a higher value added such as cheese, butter, etc. have gradually increased both in terms of total and per capita consumption.

Foreign trade

Bulgarian foreign dairy trade tends to intensify regarding both in- and outflow. However, imports outpace exports making the country a net importer of dairy produce. Such a proportion is mainly due to the foreign deliveries of milk, some of which is used as row material in subsequent processing. Imports prevail also in other dairy products such as cream, butter, spread and smoked cheese, etc.

Dairy export value tends to rise, reaching EUR 118 mln in 2014 – three time higher than 2006. Cheese deliveries have the largest share. Their volume has doubled after the EU accession reaching 26-27,000 tonnes in 2014 and 2015. Cheese export value has increased by over 150% for the same period exceeding EUR 90 mln per year. Milk and yogurt have the most significant dynamics in the export. Yogurt deliveries were approximately 8,000 tonnes per year and the milk ones surpassed 11,000 tonnes in 2014, while the volumes of both categories were negligible prior 2007.


The value of cheese import rises faster than its volume, reflecting the increased demand for premium cheese types, which domestic production is still unable to satisfy (to put it simple – does not cover in its product portfolio). The import of various other dairy products has a strong positive trend and accounts for one-fifth of the total value of the sector.
MEAT PROCESSING

212 PROCESSORS

100,000 MT RED AND 91,000 MT POULTRY MEAT PRODUCTION

PORK IS THE MOST DEMANDED MEAT. MORE THAN A HALF OF ITS DOMESTIC CONSUMPTION IS IMPORTED. IT HAS THE LARGEST SHARE IN BULGARIAN AGRI IMPORT.

POULTRY IS THE MOST DEVELOPED AND INDUSTRIALIZED STOCK BREEDING BRAND. BULGARIA IS DUCK MEAT AND LIVER EXPORTER.

MEAT FOOD PRODUCTION

139,000 MT

14% SAUSAGES AND SIMILAR, 72.9%

SMOKED, SALTED AND DRIED, 12.6%

OTHER (INCL. CANNED), 15.3%

€346,000,000

OTHER (INCL. CANNED), 14.9%

SMOKED, SALTED AND DRIED, 15%

SAUSAGES AND SIMILAR, 70.1%

28 MLN € EXPORT

32 MLN € IMPORT

MLN €

SAUSAGES

OTHER

2007 07 08 09 10 11 12 13 14 15

MLN €

2007 07 08 09 10 11 12 13 14 15
Meat processing

Production

There are 480-500 enterprises in Bulgarian meat sector. About 200-220 of them are meat products producers and the rest are involved in initial meat processing and preserving, mainly slaughterhouses. Meat products production is 135-140,000 tonnes per year, valued at approximately EUR 350 mln. It has been relatively stable in the last decade, with a small decrease in perishable, dried and smoked sausages and similar products. This category has the largest share in the production structure – 100,000 tonnes (EUR 242 mln) in 2015. Different smoked, salted and dried meat is estimated at another 17-20,000 tonnes (around EUR 50-52 mln) per year. A positive trend, especially in value, is observed in the category of other meat products, including canned and prepared foods.

This sub-sector is characterized by a long-term deficit of domestic raw materials, especially red meat. Pork meat has the largest share in Bulgarian agri import value and its volume has been constantly increasing, reaching EUR 172 mln (110,000 tonnes) in 2015. Such a dependence on imports does not seem to harm severely the producers since the imported meat is usually more price competitive than the domestic supply. Moreover, swine production exhibits the fastest growth in Bulgarian stock-breeding, gradually easing the raw material supply pressure and providing more options to processors. Some processors have established and expanded their own pig farms. For example, “Boni Holding” – the market leader in meat products, has the largest system of pig far-facilities as well. Positive signs are also observed in the beef cattle branch with the number of farms and pedigree cattle increasing.

Meat processing benefits from the consistent development in Bulgarian poultry which provides stable commodity basis. The retaining of world grain and meat prices far from their peak levels supports the profitability in the sector. Gross operating surplus has increased for three years in a row, reaching EUR 29 mln in 2014. The surplus to turnover ratio of 7,6% is above the food industry average. In 2014 meat processors upturned the negative trend in investments, spending EUR 12 mln in tangible assets.
Consumption

Bulgarian households consume a relatively stable volume of processed meat – about 45,000 tonnes, more than half of it being perishable sausages. Its per capita consumption slightly decreases along with bacon and canned meat, while the indicators for dry sausages, dried meat and ready-to-cook products rise.

Foreign trade

Though foreign trade has intensified after 2007 as well, meat products fall behind the other sectors covered by this report in terms of turnover. The import volume is more than twice the export, but measured in values this proportion is far more balanced.

Exported meat products rose most rapidly in 2009 and 2010 and in the following years they have been relatively stable – around 8-9,000 tonnes, 3,000 tonnes of which are sausages, and the like.

The import has steadily increased and reached 19,000 tonnes in 2014, followed by a drop to 16,000 tonnes in 2015. It is almost equally spread among different sausage products and other preparations.
SNAPSHOT

BAKERY

2958
PROCESSORS

5 600 000 MT WHEAT AND
500 000 MT WHEAT FLOUR
PRODUCTION

352 000 MT BREAD PRODUCTION
197 000 MT OTHER BAKERY PRODUCTION €415 000 000

BULGARIA IS ONE OF THE
KEY WHEAT EXPORTERS IN
THE BLACK SEA REGION

100 SMALL,
MEDIUM AND
LARGE GRAIN
MILLS IN
BULGARIA

207
MLN € EXPORT

116
MLN € IMPORT
Founded in 1929, Pobeda JSC has established itself as one of the leaders in bakery and confectionary products. Its portfolio comprises of five categories—biscuits, mini cakes, croissants, crackers and chocolates, in all of which the company has well-known brands on the domestic market.

Pobeda’s sales amounted EUR 11 mln in 2015. More than 60% of which are in biscuits - 15% share of the Bulgarian market (30% in biscuits not covered in chocolate). Almost 20% of the turnover is formed by chocolates, where the company is among the Top 5 producers in the country.

Export accounts for approx. 10% of the total sales. In the last years, Pobeda has actively expanded its trade partnerships in the Middles East, Libya and Egypt. Despite the European market is highly concentrated and competitive, the company exports also in Poland, Slovakia, Germany, Czech Republic, Hungary, Georgia, etc. Expansion abroad is prioritized, therefore Pobeda needs innovative technologies, product development and market research services, specified for particular markets and product categories.

Pobeda has invested more than EUR 5 mln in modernization, market and product research during the last few years. The company operates technologies, lines and equipment produced by well-reputed suppliers from Austria, France and Italy. The availability of local office and service facility is a key advantage in their technology choice. Web-based diagnostics and maintenance is also a desired feature. Pobeda relies on global suppliers also for various ingredients and raw materials.

POBEDA.BG
Production

The number of bakery enterprises is constantly rising. The bread and fresh pastry producers have increased by a fifth in six years up to 2,782 in 2014. The pace is even more rapid in the preserved bakery production, where operators topped 150 in 2013.

Bakery is one of the sub-sectors who can rely the most on domestic commodities (except the negligible durum wheat crop). The country is one of the key producers and exporters of wheat in the Black sea region, though there have been problems with the milling quality in some years. Taking this into account and the fact that the production structure is yet to develop, we consider there are significant growth perspectives for this sector.

In terms of volume, bread production has the largest share in the industry structure, even though it tends to decrease. In 2015 bread production was 350,000 tonnes, valued at more than EUR 160 mln. The bread market is highly competitive featuring large industrial operators, as well as small-scale producers, distributed in almost all big cities, medium- and small-sized towns. During the last few years the popularity of the premium market segment has been increasing, being represented by boutique bakeries who sell directly to consumers.

The upward trend in electricity and labour costs, combined with the intensive price competition, emphasizes the need of more efficient, automatic and productive technologies and equipment.

Other bakery foods production is gradually increasing, especially in terms of value. Sweet biscuits, waffles, and the like, have the highest production value in the sub-sector – almost EUR 200 mln. The produced quantity has increased by more than 23% in just one year. 65,000 tonnes of fresh pastry products and cakes, amounting to EUR 163 mln, were produced in 2015. Rusks and toasted products volume is also growing consistently. Pasta and macaroni annual production rose by approx. 50% between 2012 and 2015 compared to the estimated volume in the previous four years. Nevertheless, it is still a fractional part of the industry and has potential for further development.
Bakery has the largest relative size of operational surplus compared to the other sub-sectors in this report – 12.4% of the turnover on average with this ratio even going as high as 16% in biscuit, rusks, wafer and other preserved pastry foods. In absolute values, the operating surplus has increased by 50% in two years reaching EUR 75 mln and providing significant investment potential to enterprises. The tangible goods expenditures rose by almost a third to EUR 24 mln in 2014 and reached the pre-crisis levels. The investment is especially intensive in pasta and macaroni production, and in 2013 it even surpassed the value added in this niche.

**Consumption**

Bulgarians traditionally include bread in their meals, but this is slowly changing and demand exhibits a downward trend. The gradual change in the consumption habits caused by preferences for healthier foods and the improved standard of living are among the underlying factors. Bread consumption per capita (in households) has shrunk by over 12% in ten years. A second reason is the long-term population decline. The situation is similar with the other widespread pastry products. In contrast, far more optimistic are the perspectives for various high-quality fresh pastry products, biscuits, rusks, etc. The increasing popularity of the Mediterranean cuisine implies further increase in pasta products demand.

**Foreign trade**

Bulgaria is a net exporter in bakery. Total foreign trade turnover rises in all but one of the last fifteen years and export has increased for fifteen consecutive years measured in both volume and value. In 2015 it reaches 95,000 tonnes that worth EUR 207 mln. The largest contributor is waffles – almost EUR 80 mln with volumes having increased twice in ten years. Apart from that, export structure is well diversified. Other sweet products like croissants, cakes, etc. have about 20% share with 10% 5ya growth rate. Rusks, toasted products and biscuits also exhibit a slow changing trend. Import value has tripled in the last ten years. Apart from that, import structure is well diversified. Other cereals, pasta and macaroni products account for about 20% share with 10% 5ya growth rate. Opposition to that, import structure is well diversified. Other cereals, pasta and macaroni products account for about 20% share with 10% 5ya growth rate.
At the same time, though, potato processing is having its upturn in the recent years. Production rose four times in both 2013 and 2014 and added another 50% growth in 2015, reaching 6000 tonnes. The predominant part of the production is packed fresh potatoes (peeled, chilled, sliced or not, on cubes, spiced, etc.) which are ready-to-use in restaurants and subsequent food production.

The increased number of medium and large potato growers and intensive spreading of high quality varieties (the largest part of imported seed potatoes comes from the Netherlands) have also contributed to this positive trend.

The number of processing operators has doubled in just one year. A new factory of Vasilev & Todorov OOD (Kompir brand) for various fresh potato preparations has been working in the town of Samokov for six years. Aladin Foods - a fast food company, set up a potato processing plant for own needs in Plovdiv. In 2015 Eleya EOOD opened a factory for vegetable processing, including potatoes, in the village of Dolna Dikanya. The investment exceeds EUR 4 mln, partially funded under the Rural Development Program. There are also other units operating in the country but of a smaller scale and local importance. Many of the largest F&V processors also include potatoes in their portfolio.

Bulgarian HoReCa sector, with its substantial and consistent growth, is expected to be a key factor for further development and diversification of potato processing in products like fried preparations, chips, starch, etc. Still, the negligible share of processed potatoes in total production suggests a huge potential in the raw material basis if the necessary improvements in growing practices are made.
Giving the difficulties in domestic processing, it is not surprising that Bulgaria is by far a net importer of potato products. Foreign deliveries have tripled since joining the Common EU market, reaching 31,000 tonnes valued at over EUR 23 mln in 2015. Different prepared (not frozen), frozen (not prepared) and prepared (frozen) products have almost equal shares in the import value structure. In terms of volume, more than half – 16,000 tonnes, is due to prepared frozen potato foods. Export is irregular and the quantity is negligible.

Such a strong dependence on import is another reason to suggest there is a niche for development of domestic processing in some specific categories.
Vassilev & Todorov Ltd. was founded in 2010 in Samokov - a leading potato producing region in Bulgaria (approx. 70 km from Sofia) and has been operating under the Kompir brand. The company produces various fresh and chilled, peeled and sliced potatoes – steak house, French fries, cubes, wheels, baby potatoes, etc., for household consumption and the HoReCa sector.

It has gradually become the largest potato processor in Bulgaria and a key driver of the growth figures of the whole sub-sector. The company has approximately 30% annual sales growth, reaching 10 000 MT estimated at EUR 4 mln. Almost all deliveries go to the Bulgarian market where it has about 10% share. The company has its own distribution, but through the logistic centers of retail chains, such as Kaufland, METRO, Fantastico and T-Market, it achieves also full domestic market coverage.

Kompir owes its fast development to three major business principles – on-time deliveries, high quality and client feedback. Therefore, it constantly invests in production improvement, diversification and security. In 2016 the company built a new, four times larger production facility.

Vassilev & Todorov Ltd. is looking for sustainable partnerships in equipment deliveries, technology engineering and product development consultancy. Since the nature of its business does not allow prolonged production downtimes, the good post delivery service and maintenance are of key importance in the equipment choice.
Notes & Disclaimer

Data from internationally recognized sources and official institutions in Bulgaria, as well as data from meetings with producers has been used in preparation of this report. However, no part of the text should be used as a recommendation for business decision making.

When analyzing the sector, possible flaws in data collection should be considered. Different methodology and classification among data sources hamper the construction of proper demand/supply model in each sub-sector. Part of the databases contain some low reliability values found out after cross-check with other sources (incl. corporate financial reports). And while we consider tendencies as reliable enough, capacity measurement based on such absolute values could be an inappropriate approach.

Extended data tables are provided in the Excel supplement.

The Embassy of the Kingdom of the Netherlands commissioned InteliAgro to prepare this report which was drawn up with the utmost care. The information contained herein is provided as a public service for the Dutch business community, with the understanding that the Embassy and InteliAgro make no warranties concerning the accuracy, completeness, reliability, or suitability of this information for the reader. Reproduction is allowed only by mentioning the source.

Sources

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About

Embassy of the Kingdom of the Netherlands

The Office of the Agricultural Counsellor within the Embassy of the Kingdom of the Netherlands in Sofia facilitates and assists Dutch companies in the agri-food sector, active or interested to become active on the Bulgarian market either in trade and/or in investments. In addition, it strengthens the bilateral relations and co-operation between the Netherlands Ministry of Economic Affairs/ DG Agro and DG Nature with the relevant Bulgarian authorities.

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InteliAgro

InteliAgro is a legal entity working non-profit for public benefit. It was created with the support of the America for Bulgaria Foundation at the end of 2014. Our mission is to support the development of sustainable and competitive agriculture. We believe that the full potential of the sector can be unlocked through a combination of more effective and efficient management of resources, improving the conditions for doing agribusiness, reducing bureaucratic burdens and placing Bulgarian farmers on an equal footing with their European counterparts.

If you find this research useful and want us to make such materials more often in the future, if you share our mission and vision, you can support our work with ideas, information or a donation.

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