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1 General review

1.1 General overview of agricultural and national economy developments

The Bulgarian macro-economy has remained stable over recent years. The positive trend in economic development in Bulgaria that started in 1998 has continued. The GDP increased by 5.6%¹ in 2004 which was higher than the previous year's growth rate (4.5%) and was the highest increase over the period. The increase in the gross value added (GVA) in 2004 was 5.4%. The current account balance² is positive and more than twice that of 2003 which was mainly due to direct investment in the country and tourism. On average the interest rate declined slightly compared to the previous years, but in general the difference between the main interest rate and commercial bank interest rate on credits remained at the same level. The inflation rate was estimated at 6.1% which is substantially higher compared to 2.3% in 2003.

The value added in agriculture also increased. The agricultural growth rate in 2004 is estimated at 2.1% or 3581 million Leva (euro 1830.9 million) at current prices which is substantially less than the economic growth of the country (5.6%). The share of agriculture in GDP in the last year was 10.9% thus, the declining trend in the share of agriculture in GDP seen over the last years continued. The share of employment in agriculture declined slightly from 25.4% of the total employment in 2003 to 24.9% in 2004³.

The foreign trade balance of the country is negative as the net imports in 2004 increased compared to the previous year by 23%. As over the whole period of transition, the agricultural foreign trade balance is positive. Agricultural exports³ account for 9.1% of total exports, while agricultural imports are 4.9% of total imports.

1.2 Overview of agricultural and rural sector development

1.2.1 Production

According to the farm survey data⁴ there are 684229 farms with 2.9 million ha of land. 98% of the farms are family farms and cultivate only 30% of the land and the average size of these farms is 1.3 ha. The other farms comprise legal entities including coops. 33% of the family farms have less than 0.3 ha of land and 77% of the farms less than 1ha. 32% of cattle and 24% of pigs are in farms with less than 2 animals. Only 47% of cattle are in farms with more than 5 animals. However, in recent years the number of small farms has declined and there has been an increase in the average size of the medium and large farms.

¹ Preliminary data for 2004. Source Statisticheski spravochnik, 2005, NSI

² According to the IMF 5th edition of the Balance of Payments Manual current account balance consists current account (goods and services (trade balance, net services, net income), current transfers, net capital transfers, financial account (direct investments, other investments) and errors and omissions.

³ Source Statisticheski spravochnik, 2005, NSI

⁴ 2003

According to the preliminary data gross agricultural output (GAO) in 2004 is estimated at 6859 million leva (euro 3525.4 million) or 2.4% higher than in the previous year. As yet there is no data available for the structure of GAO by sub-sectors in that year. In 2003, the share of crop output in GAO was estimated at 51.7%, and for livestock – 30.8%⁵. In general, in recent years an increasing trend in the share of crop output is observed and a decrease in the livestock sector's share.

The most important crops are grains and sunflowers. In 2003 the share of these products in crop production accounted for approximately 50% of GAO. In physical terms in 2004 the area under grain increased by 15% compared to the previous year as the most substantial increase is observed for wheat (23%) and barley (21%). But it has to be mentioned that in 2003 area under wheat was at its lowest level over the transition, having declined by 15% compared to 2002.

Grain production in 2004 was virtually double that of 2003, the increase in wheat, maize and barley production being 97%, 82% and 124% respectively. The major cause of the increased production was higher yields compared to the previous year when yields had been very low due to drought.

Another important crop for Bulgaria is sunflower. The area under sunflower declined by 10%, while the production increased by 37%, again due to the higher yields (52%) compared with those in the drought year.

Traditionally, vegetable production has accounted for approximately 25% of the value of crops output and has used approximately 2 to 3% of the arable land area.

The importance of the livestock sector in has declined in recent years. The major sub-sectors remain milk, pork and poultry production. These three sub-sectors account for 59% of the gross livestock sector output.

1.2.2 Prices

Prices of the major agricultural products are given in table 1. As can be seen from the table prices of almost all agricultural products increased over the last three years, with the exception of sunflower and pork. The price regime in the country is completely liberal. The only exceptions are tobacco for which two types of premiums per unit of output in addition to the quality premium have been used over the last years and wheat, for which an experiment in intervention has been made at the end of 2002 and 2003. The intervention was carried out by the State Reserves via the Sofia Commodity Exchange but a study shows that it had practically no impact on the market prices. Over recent years, Bulgarian farmgate prices for crops have risen towards the level of EU producer prices and the price gap has nearly closed. However, this is not the case for livestock products and in particular for beef and veal.

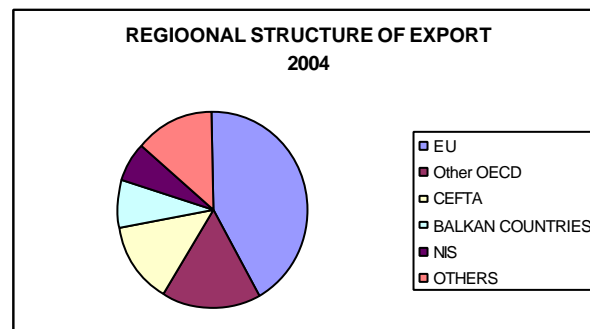
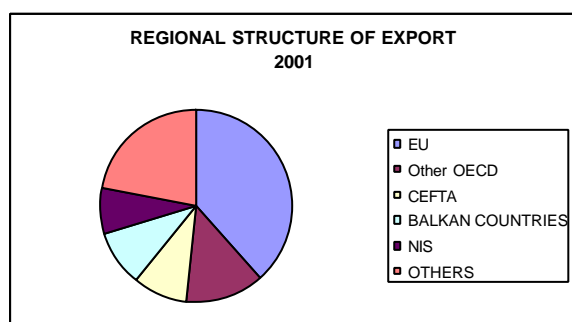
⁵ Agricultural Services and secondary activities was accounted at 17.7%

Table 1 Prices of the major agricultural products

	2002	2003	2004
wheat (euro/t)	81.04	111.67	125.31
maize (euro/t)	99.49	106.22	128.04
barley (euro/t)	74.86	97.19	99.37
Sunflower (euro/t)	219.60	197.87	185.19
tobacco			
oriental tobacco (euro/kg)	1.60	2.00	1.83
other tobacco (euro/kg)	1.09	1.18	1.22
potatoes (euro/kg)	0.24	0.27	0.22
tomatoes (euro/kg)	0.70	0.13	0.77
calves (live weight) (euro/kg)	0.87	0.82	0.82
fattened pigs (live weight) (euro/kg)	1.04	0.81	0.90
lamb (live weight) (euro/kg)	1.69	1.60	1.92
broilers (live weight) (euro/kg)	0.80	0.80	0.89
beef&veal (euro/kg)	2.28	2.18	2.19
pork (euro/kg)	2.25	1.84	1.90
Milk (euro/kg)	0.17	0.16	0.20

1.2.3 Agricultural Trade

As was mentioned above Bulgaria has been a net exporter of agricultural and food products over the whole period of transition. Despite the relative weakness of the world market, Bulgaria's net agri-food exports have increased in both volume and value over recent years. For the period 2001 to 2004, the increase in agricultural exports was 51%. Exports of sunflower seeds, oriental tobacco, wine, wheat and sheep meat are Bulgaria's major agri-food exports. The export of the mentioned products comprises 25% of the value of agricultural exports, with sunflower seeds about 8%; tobacco 6% and wine 4%. In general exports of processed products (chapters 15 to 24) constitute around half of agricultural exports. It has to be mentioned that export of canned fruit and vegetables and dairy products that use to be major export group after initial drop, stabilised but at much lower level. Crops (chapters 6 to 14) comprise about 35% of total agricultural exports, and the export of animal products accounts for only 17.5%.



The regional structure of exports is shown above. As can be seen from the graphs, the share of exports going to the EU, to the other OECD and CEFTA countries increased by 3%, 4% and 3% respectively from 2001 to 2004, whilst those to the Balkan countries and NIS declined.

Over the same period imports of agricultural and food products increased by 19.2%. The major commodity imports are: meats and edible offal (10% of total imports); sugar and sugar products, 9%; fats and butters (from vegetal and animal sources), 7%; and citrus, 6.5%. The source of import is shown below:



As seen from the graphs there were no substantial changes in the main sources of imports over the period. The shares of import from the EU and from other OECD countries remained relatively constant over the period. There were some increases in the share of imports from the CEFTA and NIS countries.

1.3 Agricultural and rural policy developments

1-3 Agricultural and rural policy developments

In general the agricultural policy applied in Bulgaria since 1998 has been liberal: no price control (except for tobacco) and a completely liberal foreign trade regime with the only exception in 2004. In an attempt to introduce CAP-conforming market organization measures, in 2002 legislation related to the export subsidy system was introduced. By the end of 2004 in order to stimulate export of canned fruit and vegetables and dairy products in particular export subsidies were used. The products included in this export subsidy scheme were poultry meat (120 t), eggs (500 t), lamb (250 t), dairy products (300 t) and canned fruit and vegetables (1462 t) were used. The total amount of paid export subsidies was 668 thousand leva (euro 341.8 thousand).

The main instruments used for supporting farmers are credit subsidy for short and long term credits, direct subsidy schemes, input subsidy, milk price subsidy, export subsidy (introduced in 2004) and support under the SAPARD programme in respect of the National Rural Development Plan. In addition to the traditional instruments, in 2005 LFA payments were introduced in 6 mountain regions to test this instrument that has to be applied after EU Accession.

At the end of 2004, the work of collecting the data on individual farm's milk production started. Data is collected on the number of the cows, heifers, their breeds and technology of breeding, the quantity of milk sold for processing and other data necessary for implementing the milk quota system. It is foreseen that at the end of 2005 the same data will be collected again which will allow allocation of the milk quota among the milk producers.

In preparation for implementation of the CMO for milk and dairy products, a regulation has been approved for monitoring the quantities of milk and dairy products produced and sold on the market. The regulation sets out the methodology and mechanisms for organising and updating the database of milk producers, milk collecting points and dairy processors as well as the quantity of milk processed.

In April 2005 National Milk Board was constituted and includes representatives of the milk and dairy producers' organisations of as well as traders in dairy products. The major goal of the Board is to aid the development of the milk and dairy sectors. The Board has responsibilities for control of the origin and the quality of milk and dairy products as well as the allocation of the milk quotas.

In 2005 the work on setting up the register of vineyards started. The draft regulation for control and coordination on wines and beverages is under discussion.

1.4 Issues related to the enlargement

In general it is expected that the implementation of the CAP will stabilise Bulgarian agricultural production but will not lead to a substantial increase in the level of production. Despite the fact that for the first three years of EU membership producers will not be required to conform with all the compliance measures and there will be second pillar measures support over that time, it is likely that producers in some sub-sectors will not be able to adjust to high standards that compliance measures require or to afford the high level of investment that is needed to meet them.

Livestock producers face particular problems in adapting to the CAP system as many specialised market-orientated producers do not have pasture land. This will create serious problems for the implementation of the direct payments system in the livestock sector.

2 Assessment and Outlook

2.1 Wine sector

2.1.1 Wine consumption

In general, there is no balance sheet of wine in the country. The only information in respect to consumption refers to household consumption of wine⁶. The per capita consumption of wine increased over the period from 6.5 kg to 8.3kg. These figures refers to the consumption at home and do not include consumption in restaurants, bars or other public food places.

2.1.2 Wine imports

Bulgaria is a net exporter of wine, importing only very limited quantities. The broached wines (in casks) formed nearly 80% of total wine imports by volume at the beginning of the period in 2001 but in 2004 the share of this type of wine declined to less than 15%. In general the price of this type of wine is very low (less than euro 0.5 per litre). Traditionally the main sources of imports have been the CEECs (mainly Hungary and Czech Republic) and Macedonia but in the last two years imports from Macedonia have fallen to zero. Over the years, imports from the EU (the largest single source being Germany) increased substantially. In general the import of broached wine is very variable and is extremely dependent on contracted export to the NIS markets because there are no requirements for guarantees of wine origin on these markets.

There is a decreasing trend in the import of bottled table wines. From 2002 to 2004 imports of bottled table wine nearly halved whilst those of quality wines rose.

2.1.3 Vineyard area

For the first sub-period 1999 to 2001 the total area of vineyards increased, while in the later years a decline can be seen and the proportion of non-cultivated vineyards increased. In 2004 the abandoned vineyards increased from 28000 ha in 2003 to 34000ha. This is mainly due to the change in the ownership and high fragmentation of the vineyards as well as the age structure of the plant.

Due to various reasons (frost, pest and disease etc) on average 5% of the vineyards annually are not harvested. The figures in the Annex refer to the vineyards harvested but to the total area under grapes. The vineyards not yet of fruit-bearing age have increased over recent years. In 2004 they comprised 3.2% of the total vineyard area. This is mainly the result of support policy applied to the sector through which low interest rate investment credits were provided by the State "Agriculture" Fund and in particular under the SAPARD support measures.

The process of replacement of the wine variety vineyards with new plants and new varieties is still in progress. There has been increased interest in planting new areas as well as in rehabilitation of old ones. In 2004 alone the Executive Agency on vine and wine issued 78 acts for re-planting of wine variety areas totalling 2000ha.

⁶ Household budget survey carried out regularly by the National Statistical Institute.

In respect to the variety structure of vineyards, about 60% of the vineyards are planted with red wine varieties, 30% with white wine varieties, and the rest are table grapes and grapes grown in households (trellis vine). According to the wine experts, the vineyards planted with varieties providing better quality of wine like Chardonnay, Muscat Ottonel, Cabernet Sauvignon and Merlot have been well tended.

2.1.4 Structure of production

As shown in the annex grape production increased over the observed period with the exception of 2004 when some decrease is observed. The reduction in household grape production is the most substantial, 30%, compared to the previous year. The share of table grapes in total grape production varies from year to year but on average is 5 to 7% of the total grape production. About 70% of the wine grape production is red grape.

It is a phenomena in Bulgaria that only about 70% of the wine grape production is processed into wine, the remainder of the grapes go to non-industrial (home made) wine and beverages production.

2.1.5 Wine production

Over the period 2000 to 2004 there have been 150 wineries. 62% of them have a capacity of less than 3 million litres; 18% a capacity of 3 to 10 million litres and the other 20% a capacity above 10 million litres. Due to structural changes in wine grapes production as well as weather conditions the wine production has fluctuated over the analysed period, showing declining trend at the beginning of the period after which recovered slightly and remained at the same level in the last two years.

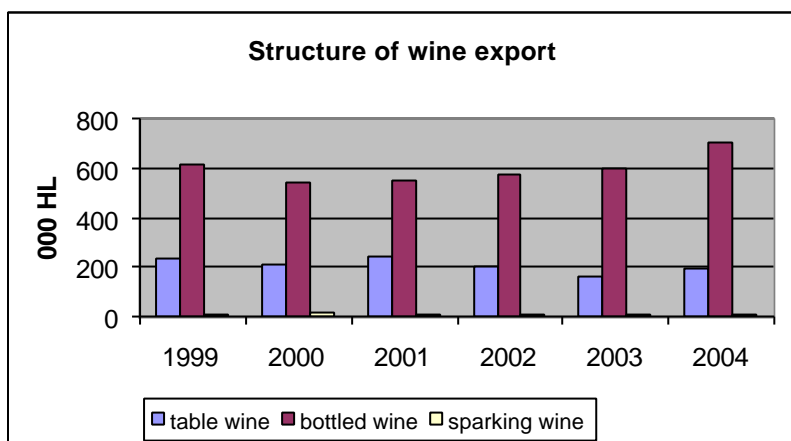
In the last two years of the period most of the wineries have changed their ownership which has resulted in a larger volume of grapes being purchased for wine-making and has led to some modernisation of the wineries and improvements in their financial position. Some of the new owners have also showed keen interest in the establishment of new vineyards.

Some 55% to 65% of the wine produced is table wine, regional wines comprise about 20% and high quality wines around 15% with small volumes of sparkling and special wines. Red wines make up about 55% to 60% of total wine production, the major varieties being Cabernet Sauvignon (27% to 30%), Merlot (25% to 30%) and Pamid (20% to 25%). The varieties Rkatsitely (20%) and Misket Cherven (20%) have the highest share among the white wines, followed by Muscat Ottonel (15%) and Dimiat (15%).

Non-industrial production of wine decreased over the period and in 2004 28% less home made wine was produced compared to the previous year.

2.1.6 Wine exports

As mentioned above Bulgaria is net exporter of wine. The exported quantities of wine vary from year to year, but remained around 800000 HL, showing a slightly increasing trend over the period as a whole. The structure of wine export over the period 1999 – 2004 is shown below.



Bulgarian exports are mainly of bottled wine, a decline in the bottled wine exports observed at the beginning of the period has been offset by an upward trend over the last four years. Approximately 60% of the exports go to the EU (40%) and CEFTA countries (20%). Other major export destinations are the NIS and Baltic countries (30%). Exports to the rest of the world amount to only about 10%. Poland and the UK are the most important importers of Bulgarian wines. The export of bottled wine to these two countries alone amounts to about 30% of the total exports of bottled wine, but is noticeable that exports to the UK shows slightly declining trend while exports to Poland are rising.

In recent years, Bulgarian exporters have only filled, on average about half of the preferential (zero duty) import quotas to the EU. Over the period Bulgaria has achieved some 60% to 65% of its bulk table wine quota, and 40% and 20% respectively of the quotas for bottled and sparkling wine.

The average export prices of Bulgarian wine differ according to the destinations of export. In general the price of export to the EU is some 30% higher than on average for the total export while the export price to the NIS is around 20% lower than the average. Over the last years of the period a slightly increasing trend in the average export price is observed for both table and bottled wines. More substantial increases have been seen in the export price of sparkling wine (210% for the period 2002 – 2004).

2.1.7 Policy issues

In 2003 the Wine and Beverages Act was amended. The amendments refer mainly to the regulations on vineyards, establishing an integrated information system for management and control and changing the rules for the registration of wine grape producers from the Regulation of the MAF to the Act as an obligatory element of the control. The “Bulgarian Wine Fund” was set up in the Act, having as its main purpose the promotion of Bulgarian quality wines.

Over the period regulations for:

- allowing organic practices and their control,
- conditions and order for registration and maintaining the wine register and all other documents for insuring the effective management and control
- requirements for transportation of wine and wine grapes
- conditions and order of planting new vineyards or up-rooting, re-planting and grafting wine vineyards
- labelling and trade presentation of wine and beverages

and other regulations in respect to harmonisation of Bulgarian legislation with the EU regulations have been introduced or amended.

Over the period the price and trading regime was completely liberalised. Government support to wine grape and wine producers has been carried out by the State Fund "Agriculture". The main element of support to producers has been the provision of low interest rate investment subsidies for planting and re-planting new vineyards, including some direct payments for this amounting to 1500 leva (766.9 euro) per ha but no more than 50 ha per producer. Under this investment credit scheme more than 1100 new vineyards have been created over the last three years.

Under the measure for the improvement of processing and marketing of agricultural and fishery products of the SAPARD programme, over 15 projects were financed for renewal of the technical equipment and adoption of new technologies in wine processing factories and the total amount of the financial assistance paid to date is estimated at 20.7 million leva (10.6 million euro) .

Grape producers can also benefit from the SAPARD measure for investments in agricultural holdings. This measure provides support for the improvement of the quality and technologies used in wine grape production.

2.2 Sugar sector

2.2.1 Sugar consumption

Over the period 1999 to 2004 sugar consumption per capita remained relatively constant. In the figures shown in the annex consumption of households is shown. In addition to the sugar consumption, consumption of sugar products per capita over the period amounts to 1.3 kg. There is no data for sugar consumption out of home (restaurants, coffees, etc.) as well as in the processing industry.

2.2.2 Sugar import

Bulgaria has always been net importer of sugar. The import of non-refined cane sugar is under the lower tariff quota (a duty of 5% compared to MFN tariff for cane sugar of 50% and 184 euro/tonne for beet sugar). The amount of the quota is 250000 tonnes. Sugar imports have varied from year to year by about 15% without any clear trend. Nearly all the imports are of cane sugar, coming mainly from Cuba, Brazil and Salvador.

2.2.3 Sugar beet area

The area under sugar beet is very low, varying between 30 and 300 thousand hectares but showing a strongly declining trend. The sugar beet area was at the lowest level in 2003 (0.03 HA) and recovered to some extent in 2004. This is approximately 0.009% of the total arable land in the country.

2.2.4 Structure of production

Sugar beet production is estimated at 0.04% of the gross crop output and 0.02% of the gross agricultural output over the period. As seen from these figures sugar beet production is not important for the country. The increase in production of sugar beet in 2002 and 2004 could be attributed to the support to sugar beet producers provided by the State Fund "Agriculture" in the form of a price premium in 2002 and 2004. These payments per unit of output amounted to 12 leva per ton in 2002 and 15 leva (7.67 euro) per ton in 2004.

However, from the sugar processors' point of view, the cost of producing white sugar from imported raw cane sugar is much lower than that of processing it from sugar beet hence there is no real demand for sugar beet.

2.2.5 Yields

After the deviation of the yields at the beginning of the period they have stabilised at the 23 to 24 tonnes per hectare. This stabilisation at a relatively high level compared to the first years of the period could also be attributed to the support to sugar beet producers provided by the State Fund "Agriculture".

2.2.6 Sugar and isoglucose production

Over the analysed period sugar production in the country has been predominantly processing of imported cane sugar. In recent years sugar production has stabilised at the level of 190000 tonnes which is some 20% lower level than at the beginning of the period. It is also of note that most of the sugar processing enterprises are equipped for processing cane sugar and are not suitable for processing of sugar beet. The equipment and technologies in particular for sugar beet processing are out of dated and practically there is no investment in this field.

2.2.7 Exports

Practically there is no export of sugar.