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New Government Strategy for the Dairy and Livestock Sectors

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Report Highlights:

The Bulgarian Ministry of Agriculture released its strategy for the dairy and livestock sector development until 2014. The MinAg hopes that the document will play an important role for the formulation of the national CAP-reform position and will justify national funding support for the sector for 2012-2014. It forecasts a continuation of ongoing concentration and commercialization in the dairy and livestock sectors, further reduction in the number of farms; the number of dairy cows will stabilize but the milk productivity will increase. Genetics and new technologies will play a key role in the dairy sector. Swine and poultry sectors, which already see a high degree of concentration and commercialization, will gradually improve and significant investments should be put in adoption of EU animal welfare standards. In order to strengthen support for dairy and livestock farmers and achieve goals in its strategy, the MinAg plans to more than double domestic support for the sector by 2014 to over 150 million Euro.

General Information: Overview

In August 2011, the MinAg released its strategy for the dairy and livestock sector development until 2014. In the past, the MinAg made efforts to elaborate strategies for various sectors, however, they usually failed since they were not based on sound analysis, not consulted with the industry, and not supported by funds/resources. The new strategy is the first one which eliminates previous deficiencies and has a chance to become a major strategic document for the development of the dairy and meat sectors in the next 3 years. The MinAg hopes that the document will play an important role for the formulation of the national CAP-reform position and will justify national funding support for the sector for 2012-2014. ^[1]

The MinAg recognizes the current lack of balanced approach in the domestic support policies. The dairy and livestock sectors account for 30% total ag sector production but they receive only 14% of total ag subsidies. While subsidies for crop farms account for 22% of the crop value, for livestock farms this index is 6%. The average income of a livestock farm is usually 2.5 times lower than of a field crop farm. In Bulgaria, total ag subsidies account for 27% of the farm income compared to 40% in the EU.

Major findings of the MinAg analysis for the dairy and livestock sectors for the period 2007-2010 were: the decline in livestock numbers bottomed off, currently the number of livestock is slowly but steadily increasing; livestock farms get bigger due to ongoing consolidation; product orientation changes – new meat farms emerge; the types of livestock raised at farms change – smaller and mountainous cattle farms switch to sheep and goats farming; animal selection and breeding improve and the number of livestock under selection control increases.

The MinAg forecasts a continuation of ongoing concentration and commercialization in the dairy and livestock sectors, further reduction in the number of farms, the number of dairy cows will stabilize but the milk productivity will increase; there will be more beef cattle farms as well as larger, commercial type sheep and goat farms. Swine and poultry sectors, which already see a high degree of concentration and commercialization, will gradually improve and significant investments should be put in adoption of EU animal welfare standards.

The MinAg makes direct correlation between the ongoing positive trends in the dairy and livestock sectors and improving domestic support in 2009/2010. In order to strengthen support for livestock farmers and achieve goals in its strategy, the MinAg plans to more than double domestic support for the sector by 2014 to over 150 million Euro.

Agricultural Sector Development 2007-2010

- Agriculture in Bulgarian GDP:

The agricultural sector's contribution to the economy over the last several years declined from 13.9% in 2000 to 6.0% in 2010 but it is still higher than the average in the EU (1.8%). The importance of agriculture is, in fact, increasing due to its role for the development of rural areas, as a source of income

for a significant part of the population not limited to farmers, and as an economic and trade engine for the national economy in years of financial challenges (2009-2011).

In 2010, the agriculture/forestry/hunting Gross Added Value/GAV was 3.19 billion leva (1.6 billion Euro) which was 5.3% of the national GAV and 4.5% of GDP. The quarterly growth in the ag sector in 2010 was the fastest compared to all other economic sectors. The GAV grew by 11% vs 2009 and the value of agricultural products alone grew by 1.4%.

Labor in agriculture in 2010 was 750,000 people with 92.8% family labor; this is 20.7% less than in 2007. Usually, two thirds of all ag labor is employed in the dairy and livestock sectors.

- Agricultural Trade:

Agriculture is the only economic sector which has been registering positive and growing trade balance (with the exception of dry 2007). The ag trade surplus has grown from \$220 million in 2008 to \$944 million in 2010 or more than fourfold. The share of ag exports to total national exports was 17% and the share in imports about 10% (2010).

- Agricultural Subsidies:

In 2007-2010, subsidies accounted for 27% of farmers' income in the ag sector compared to 40% for the EU. There are significant variations, however, between the crop and dairy&livestock (DL) sectors on this index.

Dairy and Livestock Sectors Development 2007-2010

In the period 2007-2010, dairy and livestock sectors in Bulgaria underwent important restructuring and transformation changes. This period coincided with the first three years of EU accession and the use of first EU subsidies.

Dairy and Livestock Sectors Gross Product

In 2010, the share of the value produced in the DL sectors to the total ag sector was 30.9% - 2.3 billion leva (1.65 billion Euro) and grew by 4.6% compared to 2009. The crop sector accounted for 53.2% of the ag value (3.99 billion leva/2.0 billion Euro). The highest growth was seen for the cattle products (mainly milk) - 36.5%, followed by eggs- 10.2%. The subsectors which contributed the most for this growth were:

- Milk production – 33.5% of DL sector production (776 million leva/390 million Euro)
- Poultry- 16.2% of DL sector production (375 million leva/188 million Euro)
- Swine - 12.4% of DL sector production (288 million leva/144 million Euro)
- Sheep and goats – 12.2% of DL sector production (283 million leva/143 million Euro)
- Cattle – 11.2% of DL sector production (259 million leva/130 million Euro)

Trade

The trade balance of the DL sector has improved slowly but steadily. In 2010, foreign trade in the sector was 12.7% higher and reached \$960 million; exports grew by 19.8% (live animals, dairy, poultry and sheep meat) and imports by 9.06% (mainly dairy products); this DL trade accounted for 16% of total agricultural trade. EU was the major partner accounting for 80% of DL trade. Although traditionally the value of imports has been higher than exports due to substantial meat imports, in 2008-2010, the trade balance was improving as the deficit was 8% less in 2010 vs 2009.

Exports:

In 2010, dairy exports were at 36,000 MT for \$95 million. Although the milk production in 2010 declined, exports of dairy processed products improved by 3.2%. Cheese accounted for 64% of exports, followed by yogurt and cream – 20.3%.

Meat exports in 2010 were 55,000 MT which was 43% more than in 2009. The lion’s share belonged to poultry meat, 83.5%, exported to the EU; it grew by 57% to 46,000 MT. Exports of red meat were symbolic. Another export item was live sheep/lamb, about 208,000 head (vs 20,000 head in 2009 and 13,000 head in 2008).

Domestic Support for the Dairy and Livestock Sector

The MinAg admits that it is difficult to evaluate the effect of EU subsidies for the period 2007-2010 since two of these four years, 2007 and 2009 were exceptional- 2007 was a very unfavorable (dry) year and 2009/10 was the peak of the economic crisis.

Table 1. Domestic Support for the Dairy and Livestock Sectors 2007-2010, million leva (2.0 leva=1.95 Euro)

| Domestic Support for the Dairy and Livestock Sectors 2007-2010, million leva | | | | |
|---|-------------|--------------|--------------|--------------|
| Million leva | 2007 | 2008 | 2009 | 2010 |
| State aid | 18.6 | 63.3 | 25.9 | 25.3 |
| -Incl. de minimis schemes | 1.3 | 42.2 | 0 | 0 |
| National Support for Live Animals | 0 | 42.6 | 59.5 | 59.9 |
| Specific support for cow milk/art.68 of Regulation 73/2009 | 0 | 0 | 0 | 20.3 |
| Market support for the dairy sector, Regulation 1233/2009 | 0 | 0 | 0 | 3.6 |
| SAPS – subsidies for pastures (estimated) | 0 | 14.0 | 18.0 | 35.0 |
| Total | 18.6 | 119.9 | 103.4 | 144.1 |
| Including Bulgarian National Budget | 18.6 | 105.9 | 85.4 | 85.2 |
| Source: Bulgarian Ministry of Agriculture | | | | |

In 2010, total ag domestic support under SAPS (single area payment scheme or subsidies per hectare of cultivated land) and state aid for the agricultural sector was 1.025 billion leva (500 million Euro) of which only 144.1 million leva (72 million Euro) or 14% for the DL sectors. This amount was only 6.2% of the value of DL sector production while subsidies for crops accounted for 22% of the crop production value.

Similar lack of balance between the crop and DL sectors was observed at the farm level as well. In 2005 and 2006, before EU accession, the share of subsidies in the gross production for crop and livestock farms respectively, was 1.78% and 1.22% (2005); in 2006, this share was slightly higher, 3.21% and 3.17%, respectively. In 2007, subsidies in the crop production accounted for 16% of the gross product compared to below 6% for the livestock farms. Since 2007 SAPS subsidies favored crop producers much more than livestock farmers since livestock farms usually have little land. This difference led to lower income levels (for example, the average income at a sheep/cattle farm was 2.5 times lower than at a field crops farm) and to lack of capacity or inability to undertake investment for modernization, restructuring and competitiveness.

In 2009 and 2010, the main focus of DL domestic support was on dairy cattle. The MinAg found a direct relationship between the increased support and the growth in the value of the gross product. Thus, in 2010 the gross value product in the dairy sector grew by 36.5% vs 2009. In addition, the sector underwent accelerated structural changes such as consolidation and merging.

The MinAg analysis registered certain trends in the dairy sector and made a conclusion that they are a result of better domestic support in 2009 and 2010. The trends are as follows: increased number of livestock; livestock farms get bigger, ongoing consolidation; product orientation changes – emerging of meat farms; change in the types of livestock raised at farms – from cattle to sheep and goats; improvement of animal selection and breeding and increase in the number of livestock under selection control. The analysis, however, seemed to ignore ongoing market processes on the EU and on the local market as the main driving force behind the above trends.

- Increased number of livestock

In 2010, the multiyear negative trend of decline in the number of animals bottomed off. In the period 2007-2009, livestock numbers declined significantly: 9% for cattle, 13.4% for cows; 2.3% for sheep, 4.7% for goats and 13.9% for swine. In 2010, the number of livestock covered by the domestic support increased by 7.34% for cattle, 11.54% for cows, 1.3% for sheep and 8.4% for goats—which helped for the negative trend to be stopped and changed. Poultry/layers and pork sectors were not subject of any domestic support and the reduction in the numbers in 2010 continued – by 9.7% for swine and by 9.3% for poultry (mainly layers). The two regions, South East and South Central, which were the major beneficiaries of domestic support, witnessed bottom-off trends even earlier, at the end of 2009. In 2010, the growth in cows in these regions was 13% and 21%, respectively, compared to 2009.

- Livestock farms get bigger and better, ongoing consolidation

In 2007 - 2010, the pace of reduction in the number of farms was much faster than the decline in the number of livestock. As a result, the average number of animals per a farm increased. In addition, larger farms undertook a more active investment and increased their herds.

Cattle and cows: In 2010, cattle farms were 28% less than in 2007. Over the past year, the reduction in the number of farms was substantial in the categories of up to 10 cows and from 10 to 19 cows – by 18% and 20%, respectively; while farms with more than 50 cattle increased by 23.7% together with their stocks- by 23.2%. The same was the trend at dairy cow farms- the category with more than 50

cows had 46% more farms and 34.6% more stocks, followed by the category of 10-50 dairy cows- 21.3% more farms and 24.5% more stocks. According to the physical on-site MinAg inspections, as of early 2011, 46,440 dairy farms closed in the period 2007-2010, however, it did not have a serious impact on the total number of cows due to ongoing concentration.

Sheep and goats: The trends were similar. Total number of sheep farms in 2010 was 33% less than in 2007. In 2010, farms with up to 50 ewes were 10% down and they raised 16% less sheep; while farms with more than 200 ewes increased by 23.8% as well as their sheep stocks - by 16.9%. For goat farms, the growth was at farms with 50-200 animals - 16% more farms and 18% more livestock.

Swine: The negative trends in the sector still continue. In 2010, swine and sows numbers declined by 9% and 4%, respectively, compared to 2009. The deepest reduction was at the category 50-200 swine - 54.8% less farms. Still, the sector remains highly concentrated, 31 farms raise 56% of all swine.

Poultry: Larger layers farms in 2010 were 7.8% more than in 2009 and they accounted for 73% of the stocks; the remaining 27% of layers were raised in small family farms. Large farms with more 10,000 layers were 4 fewer but they raised 6% more layers; farms with 100,000 layers raised 13.6% more stocks. In 2010, there was a reduction in total number of layers of 11%. For broilers, the number of both large and small farms increased by 31% and 29% respectively.

- Change in product orientation – emerging of meat farms

In 2010, meat cattle farms increased both in numbers (2%) and in stocks (17%), the highest was the growth (19%) for a 10-50 animal type farms. The three southern regions were the major beneficiaries of domestic support (national payment for suckling calves) – 87% of all support, and respectively they registered the highest growth in meat cows- 17%.

Meat ewes stocks also increased by 26.6%, and the farms - by 3%. The category of above 50 ewes farms saw 6-fold growth in the number of farms and 121% more animals; the category with above 200 sheep farms saw 108% more farms and 88% more stocks. The three southern regions emerged as specializing in this direction: the number of ewes for meat there increased by 105%, 242% and 90%, respectively for the 3 regions vs 2009.

- Change in the types of livestock raised at farms – from cattle to sheep and goats

In certain regions in the country, farmers are switching from cattle to sheep and goats breeding. Such trends are seen in Vidin, Veliko Turnovo, Gabrovo, Rousse, and Haskovo, and/or mainly in mountain areas. These trends are expected to accelerate due to expiration of EU derogation for cow milk quality at end-2011.

Currently, 2,679 dairy cow farms fully meet all EU requirements, they raise 105,000 cows or 35% of all, and own milk quotas for 454,000 MT or about half of the national quota. Dairy farms which partially meet the EU requirements are 813, with 14,000 dairy cows and have 40,000 MT of milk quotas. Farms which do not meet EU requirements are 43,000 and they have milk quotas for 525,000 MT. Out of this third category, about 9,500 farms (161,000 dairy cows) are commercially oriented. Thus, by the end of the derogation period (end- 2011 - early-2012), not more than 15,000 dairy cow

farms are forecast to remain on the market; they will raise 280,000 dairy cows.

The MinAg plans to support the above trends by focusing more domestic support on ewes and she-goat farms.

- Improvement of animal selection and breeding and increase in the number of livestock under selection control

In 2010, Bulgaria had 37 breeding associations. The number of livestock under breeding control increased by 20% for cattle, 11% for buffalo, 4% for sheep and by 44% for horses. The MinAg forecast is for further growth in 2011 – by 30% for cattle; 11% for buffalo, 11% for sheep and 10% for goats (compared to 2009).

Baseline and Forecast for 2011-2014

The major trends forecasted by the government are as follows:

- Higher gross product of the DL sector achieved mainly by improved productivity, followed by increase in the number of animals at fewer but more productive and technologically advanced farms;
- Higher income of livestock farmers;
- Higher exports and lower share of imports in domestic consumption;
- Improved genetics progress;

The ongoing restructuring is expected to lead to higher concentration, improved genetic resources, and development of a meat sub-sector. These changes will occur in the environment of economic uncertainty and vulnerability; increasing grain feed prices; maturing consumer market and higher consumer demand for better quality foods.

Dairy sector 2014: less farms, higher milk productivity through better genetics, more milk supply

The MinAg forecasts that by 2014 the number of dairy cattle farms will decline by 24% vs 2010 and the number of cows will be 5% more as less productive cows will be switched to be raised for meat.

The MinAg policy in the dairy sector in 2011-2014 will focus on:

- Increase the average number of dairy animals per a farm. The forecast is for 40% reduction in the number of dairy cow farms but only 3% less cows.
- Increase the average milk productivity through artificial insemination and imports of hi-breed animals.

The MinAg expects that currently available EU support programs for the dairy sector will support the above goals. In 2011, the number of dairy cows subject of such support is 11% more than in 2010 and payments are planned to increase by 63% vs 2010.

The MinAg forecasts the number of cattle and sheep under selection control will grow by 6% by 2012; and by 2% by 2013 and 2014; for horses the growth is at 3%-4%; for the remaining species the numbers will be stable. The number of cows under artificial insemination is likely to increase to 34% in 2012;

40% in 2013 and 46% in 2014. As a result, the expected restructuring and improved breeding is likely to lead to 14% higher milk productivity.

Milk production is likely to grow by 10% in 2014 vs 2010. The diversity of processed dairy products is likely to expand. Exports of dairy products should increase supported by promotional programs for cheeses (to Germany, Spain, Russia and Ukraine). Currently, these promotional programs have a total budget of 5.2 million Euro and are implemented by two industry organizations.

Direct sales of cow milk, especially in mountain and less favored areas, will increase. It is considered that this will prepare the industry for the soft landing and abolishment of dairy quotas.

Higher beef production in 2014

Due to expected switch of certain dairy farms to meat production, the MinAg plans to support imports of pure-bred meat breeds animals. This will lead to higher number of farmers subject of domestic support for beef production; will lead to growth in beef supply; and will result in better and more efficient pastures' use. In turn, it may lead to higher commercial beef supply. By 2014, meat cows are forecast to be 87% more, raised in 30% more farms compared to 2010 (this is equal to about 32,000 cows).

In 2012 and 2013, beef production is forecast to increase slightly by 1.8% vs 2010 and by 2014 to be 2.8% higher and reach 19,500 MT. Upon stable exports and imports, domestic consumption is likely to be around 31-32,000 MT.

Sheep sector development in 2014

This sub-sector will further concentrate and productivity should improve. The forecast is for 22% decline in farms and 38% growth in dairy sheep, as this growth will occur mainly at farms with more than 50 animals. Meat sheep farms will decline by 42% vs 2010 but the number of sheep raised will be 41% more. The MinAg will focus its policy on genetics in order to develop higher supply of quality sheep meat. The MinAg will continue to use currently implemented support programs for smaller, 10-150 animal sheep and goats farms as the number of animals benefitting from these programs will increase in the future.

Sheep and lamb meat production is likely to increase by 2014 by 36% which should lead to 18% lower imports and 5% higher exports compared to 2010.

Swine sector development in 2014

By 2013 the sector should upgrade technologically to adopt EU requirements for animal welfare and for environmental protection. No change is expected in the number of farms while the number of sows is likely to grow by 53%, and thus pork supply should increase. This is forecasted to lead to lower imports of pork and more processing of local pork.

Pork will continue to be the major red meat in the country. By 2014, its consumption is forecast to increase by 6% with imports declining by 9% and exports growing 14%.

Poultry sector development in 2014

The major task in front of the industry is to upgrade/enlarge cages for layers as per EU animal welfare requirements until end-2011. This is expected to lead to 6% reduction in the number of farms. By 2014, the number of layers is likely to be 20% more than in 2010.

Domestic Support for the Dairy and Livestock Sectors 2011-2014

To achieve the above goals, the MinAg plans gradual increase in domestic support for the DL sector after 2012 by 10% annually. In 2011, total support funds for the sector are 200 million leva (100 million Euro), 304 million leva for 2012 (152 million Euro or 50% growth); 325-345 million leva for 2014 (163-173 million Euro or 10% more than 2012).

The sources for the above funds are:

1. EU-SAPS payments for pastures- growth by 10% annually (EU Regulation 73/2009). In 2011, these payments were 70 million leva (35 million Euro), by 2014 this budget will increase to 95-100 million leva (50 million Euro) provided that pasture areas under subsidies also grow slightly.
2. National payments for livestock set at: 60 million in 2011 (30 million Euro); 81 million leva for 2012 (40 million Euro); 76 million for 2013 and 2014 (38 million Euro)
 1. Specific support for livestock (art.68, Regulation 73/2009) – 38 million leva annually (19 million Euro)
 2. Notification of a new state aid for voluntary introduction of humane attitude to animals for swine and poultry- 82 million leva annually (41 million Euro)
 3. Establishment of a new program under the Rural Development for humane attitude
 4. Other state aids including “de minimis” – 26-30 million leva annually (15 million Euro).

Gradual increase in the funds targeted at the domestic support for the DL sector will provide a safety net for a minimum farmers' income in highly volatile market environment and will stimulate active investment.

Table 2. Domestic Support for the Dairy and Livestock Sectors 2010-2014, million leva (2.0 leva=1.95 Euro)

| Domestic Support for the Dairy and Livestock Sectors 2010-2014, million leva | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Million leva | 2010 | 2011 | 2012 | 2013 | 2014 |
| | | F | F | F | F |
| State aid | 25.3 | | | | |
| -Incl. de minimis schemes | 0 | 26 | 26 | 26 | 26 |
| New state aid for voluntary introduction of humane attitude to animals for swine and poultry farms | 0 | 82 | 82 | 82 | 82 |
| National Support for Live Animals | 59.9 | 60 | 81 | 76 | 76 |
| Specific support for cow milk/art.68 of Regulation 73/2009 | 20.3 | 38 | 38 | 38 | 38 |

| | | | | | |
|---|--------------|------------|------------|------------|------------|
| Market support for the dairy sector, Regulation 1233/2009 | 3.6 | 0 | 0 | 0 | 0 |
| SAPS – subsidies for pastures (estimated) | 35.0 | 70 | 77 | 85 | 95 |
| Total | 144.1 | 276 | 304 | 307 | 317 |
| Including Bulgarian National Budget | 85.2 | NA | NA | NA | NA |
| Source: AgSofia based on Bulgarian Ministry of Agriculture report | | | | | |

Opportunities for U.S. exporters

The current positive trends in the dairy and livestock sectors as well as the outlined government strategy will open more opportunities for U.S. exporters. This includes mainly top dairy genetics which is already on the market but its market share can expand in the future. Other not yet discovered opportunities are related to genetics for meat cattle breeds as well as genetics for poultry, swine and sheep. In addition, the overall animal feeding is improving which opens market niches for imports of more sophisticated feed ingredients and other inputs related to establishment of larger modern dairy and livestock farms.

^[1] The document can be found on the MinAg website and is open for comments until September.
<http://www.mzh.government.bg/MZH/bg/Home.aspx?Page=2>