USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Voluntary _ Public

Date: 12/2/2013
GAIN Report Number: BU1355

Bulgaria

Post: Sofia

Dairy Sector Update

Report Categories:
Dairy and Products

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Report Highlights:
Bulgaria's dairy sector is undergoing a challenging period that is further complicated by present political and economic instability. The new Cabinet has requested a third derogation to meeting EU quality/safety milk requirements.

Numerous farmer protests and road blockades this fall pressured the Ministry of Agriculture to provide more domestic support for the dairy/livestock sectors. The dairy sector, debating how to generate a soft landing from termination of the EU milk quota program, remains far from being fully prepared to meet new challenges in an open market.

Despite the decline in national dairy cow inventory and in the number of farms, encouraging signs of improvement are appearing, such as: higher milk productivity, good farm demand for quality genetics, rising milk prices, and steady trade. Larger farms which have evolved over the last two years have expressed the greatest optimism with regards to being competitive with outside competition in the near future.

Overview

Bulgarian dairy sector faces a very important year which will likely represent a turning point for its future development. At the end of this year, all dairy farms should meet EU milk quality requirements as the second derogation for the country will expire by the end of 2013. The industry continued its accelerated restructuring which was often painful and, in many regions, at a high social price.

According to the latest MinAg forecast (October 2013), the number of dairy cows has continued to shrink and will likely to drop to 285,000 (or by 1-3 percent) by the end of the year. The decline is likely to come mainly from small farms which do not meet EU milk quality standards. As a result, annual milk output for 2013 is expected to decline by 2-3 percent. Milk output will continue to be far below the milk quota ceiling.

In May 2013 the current Cabinet came into power after early elections. Politically this government is center-left, with a strong social orientation. It has requested a third extension of the milk derogation for one to two more years, mainly due to the social effects in rural areas. At the working level, there is good understanding that progress in further upgrading or restructuring of non-compliant farms, especially in current grim economic situation, is not very likely. Reportedly, at a meeting in October, the EC indicated that the derogation would likely be extended for a third time but with qualifiers attached. At this point, the MinAg expects the official decision in Brussels to be taken and published soon.

If such derogation is granted, this will save about 33,000 non-compliant, mainly small farms, from shutting down and will prevent a more serious reduction in milk output. However, it will not address the current inefficiencies of the dairy sector and the necessity for urgent measures, such as investments and policies targeting higher productivity.

Over the last three years, Bulgaria fulfilled about 40-50 percent of its milk quota. Due to shortage of milk and current imports, the termination of quotas by 2015 is generating considerable discussion within the industry. Dairy processors think that lack of quotas will increase supply and reduce cost of milk in the EU and local markets at the detriment to smaller dairy operations not able to compete.

Dairy Farms Development

In 2012 and 2013, the dairy sector witnessed encouraging signs of recovery among on-going negative trends.

In 2012, the national dairy cow inventory declined 5.9 percent resulting in total cow milk output dropping 2.9 percent although the average productivity per cow grew by 3.17 percent to 3,675 liters/cow. The number of farms declined by 21.5 percent which raised the average number of dairy cows per farm from 4.1 to 4.9 animals. In 2012, farms holding dairy cattle totaled 58,732 versus 74,800 the previous year.

Table 1. Dairy cattle farms and dairy herd, 2011 -2012

Changes in the number of dairy cattle farms and dairy herd, 2012 vs. 2011				
Dairy Cows per Farm	Number of Farms as of end-2012	2012/2011 Percent Change	Dairy cows, 1000 head	2012/2011 Percent Change
1-2	43,694	(-25.5)	55.7	(-23.0)
3-9	8,454	(-15.0)	37.7	(-17.5)
10-19	3,696	7.8	47.8	7.4
20 and more	2,666	(-5.8)	147.5	2.2
Total	58,732	(-21.5)	288.7	(-5.9)
Source: Statistical Office, MinAg, Bulletin 241, April 2013				

The reduction in the number of farms was concentrated in the category of smaller farms (1-9 dairy cows). For example, farms with 1-2 cows declined 25.5 percent. Cow numbers at these farms declined 23 percent. Farms with 3-9 cows fell by 15.0 percent, along with their cow inventory which fell 17.5 percent.

Small dairy farms have been in challenging situation over the last 5-6 years for a complex of reasons, such as the need to buy feed due to lack of sufficient land for pasture and feed production; depopulation of rural areas especially in the mountain regions and lack of labor; low efficiency and productivity due to poor genetics and lack of investment; inability to upgrade in order to meet EU safety and quality milk requirements. Most such farms do not have access to EU funds – they own small amount of land and thus receive little, if any, direct subsidies (Single Area Payment Scheme), and on the other hand, their capacity to apply for investment projects under the EU-Rural Development Program is very limited.

Underdeveloped logistical/storage/market infrastructure (including lack of internet) does not allow these farms to have access to consumers other than those in their villages. For this reason, only a few farms that are conveniently located with access to tourists or near bigger towns with higher-income consumers were able to develop direct sales market niches.

Numbers of smaller farms are switching to beef, sheep, or goat production. In 2012 the growth in beef cattle numbers (by 23.4 percent) offset the marginal contraction in dairy numbers.

Medium-sized farms reflect a trend of increasing dairy stock numbers. In 2012, farms classified in the 10-19 dairy cow category increased by 7.8 percent with number of animals increasing by 7.4 percent.

The largest farms continued in 2012 the contraction initially recorded in 2011 with farm numbers reduced by 5.8 percent. However, the number of dairy cows per farm grew by 2.2 percent reflecting the ongoing restructure and consolidation within the industry.

Over the last two years the largest farm group underwent serious consolidation resulting with the leading 10-15 farms in the country expanding considerably. MinAg analysis shows farms in the over 100 dairy cow category accounted for 43,500 cows or 15 percent of all dairy cows. In 2012 larger farms, defined as over 19 dairy cow category, accounted for 51 percent (47 percent in 2011) of dairy cows in the country and retained the best prospects for growth.

Large and medium-sized farms hold a 68 percent share of dairy inventory vs. 32 percent for small farms. In terms of number of farms, smaller farms (1-9 dairy cows) hold an 89 percent share vs. 11 percent for medium/larger farms.

Milk Productivity and Production Cost

In 2012, farmers felt pressured by increasing prices of all inputs – feed, energy, and investment in upgrading – while milk prices and purchases did not change or decline. The situation has reversed since mid-2013.

Feed cost: Drought in the summer (2012) was devastating for many farmers due to lack of good pastures. Wheat, barley, and corn prices were higher than in the previous year by 1-10 percent. Feed continues to account for 70 percent of milk cost. On average, compound feed formulas for dairy cows were 10.1 percent more expensive in 2012 vs. 2011 (source: MinAg). In the first half of 2013, feed grains prices were still much above those of a year earlier - by 14-26 percent on average, depending on the grain.

However, with the new crop in July, the situation has changed and farmers currently have access to feed grains which are 30-40 percent less expensive. In September, feed wheat and barley prices were 37 percent and 26 percent, respectively, lower than in September 2012. In early October, corn prices were 44 percent lower than a year before. In addition, the summer period was not as dry and hot as the year earlier and cattle had more pasture available. For the period January-September 2013, prices of compound feed for dairy cows were 18 percent higher than in 2011 (source: MinAg). This number should show a decline in the near future given current market prices.

Milk Prices: Average ex-farm milk price in 2012 was reported at 0.59 Bleva/liter (0.30 Euro) vs. 0.60 Bleva/liter in 2011 or 1.7 percent less. In January-September 2013, average ex-farm price for milk was 0.64 leva/liter (0.33 Euro) or 8.5 percent more than in 2012. Over the first four months 2013, ex-farm price for milk has been stable at 5-6 percent higher than in 2012 while since May, the price has steadily increased to reach 14.2 percent growth in September 2013 vs. 2012. These prices should stay stable for the near future due to good demand.

Milk Productivity: According to the MinAg Agency for Selection and Reproduction, in 2012 the number of dairy cows under selection control increased by 11.6 percent, reaching 52,244, which were 18 percent of total number of dairy cows (15.3 percent in 2011). Average productivity of Holstein breed has reported to increase by 13.1 percent to 7,300 kilograms in the herd of Breeding Association Dobrich; and by 5.4 percent to 5,597 kg for the Breeding Association Rousse. Less popular Montbeliard and Simmental breeds registered a slight decline in productivity of 4.5 percent and 1.5 percent, respectively, on annual basis.

A positive trend on the market is the increasing demand for higher quality imported genetics. This year (January-August), imports of genetics (bovine semen HS#051110) have increased by 4.4 percent (value) while U.S. genetics exports grew by 115 percent and currently leads the market with 43 percent

market share (source: WTA). German genetics follows with 33 percent of imports. At the same time, imports measured in number of doses declined by 10 percent as the only exception is the U.S. exports where exports grew at 101 percent. Nevertheless, the data demonstrates the increasing demand for higher quality genetics than for higher number of doses due to shrinking inventory. The forecast for 2013 imports are estimated at 300,000 USD. Although imports remain far below the 2007 record of 800,000 USD (for the same period) when U.S. exports were at 700,000 USD, it shows the continued strong demand for quality genetics in the market place.

Milk Quality

Since 2007, the dairy sector has slowly restructured from when the share of EU compliant milk produced was 35 percent. In 2009 the percentage increased to 44 percent, then 50 percent (2012) and 60 percent (2013).

By the end of 2012/early 2013, the number of farms fully meeting EU milk standards increased by 11.8 percent. Farms in the second category (partially meeting EC milk standards) declined as some of them upgraded and moved to the first category while others shut down due to inability to meet the EU criteria.

Table 2. Dairy Farms per Category in Compliance of EU Milk Quality

Dairy Farms Per Category in Compliance of EU Milk Quality						
	As of December 1, 2011		As of December 1, 2012		2012 vs. 2011 Percent Change	
Category of farms	Number of farms	Number of dairy cows	Number of farms	Number of dairy cows	Number of farms	Number of dairy cows
First	2,752	131,320	3,078	137,694	11.8	4.9
Second	519	10,168	484	9,337	(-6.7)	(-8.2)
Source: MinAg Dairy Situation Outlook and Prospects Analysis, October 2013						

In 2013, the restructuring has accelerated and as of October 2013, the number of farms in the first category totaled 3,176 and raised 139,075 dairy cows. Farms in the second category declined to 442 with 8,457 dairy cows.

As of October 2013, still a very significant number of farms (33,145), which raised about 55 percent of dairy cows in the country (181,679 head) are in the third category which does not produce milk meeting EU standards.

There is no official data on how much milk is produced by the farms in the first and second categories, and is considered to be EU-compliant. Independent analysis shows that in 2013 about 55 to 60 percent of total cow milk production is likely to be in line with EU standards.

Nitrate Directive

The deadline for implementation of Directive 91/676/EC for prevention of water contamination from nitrate from agricultural sources (so called Nitrate Directive) related with storage and use of manure,

expires at the end of 2013. The directive is applied to all farms located in nitrate sensitive zones. This involves over 70 municipalities in the Program for limitation and termination of nitrate contamination from agricultural sources as well as areas where agro-ecological programs are applied. Farms can use funds available under the EU-Rural Program although this option is considered limited in terms of available funds.

Reportedly, dairy farms are not ready to meet the Nitrate Directive requirements including many of those that are already upgraded and produce EU complaint milk. Farm groups already consider a possible request for derogation. It remains to be seen what implementation level will be officially reported by the Cabinet in early 2014.

Milk Production and Utilization

Table 3. Milk Production, 2008-2012, MT

Milk Production, 2008-2012, MT					
Years	Cow milk	Buffalo milk	Sheep milk	Goat milk	Total milk
2008	1,143,190	7,173	88,243	77,465	1,316,071
2009	1,073,401	7,022	87,247	64,090	1,231,760
2010	1,124,360	7,933	85,001	60,410	1,277,704
2011	1,125,824	8,868	89,296	61,543	1,285,531
2012	1,093,034	8,081	87,403	53,333	1,241,851
2012/2011 Percent Change	(-2.9)	(-8.9)	(-2.1)	(-13.3)	(-3.4)
Source: Source: Statistical Office, MinAg					

Table 4. Produced and Processed Milk in 2008-2012

Produced and Processed milk in 2008		
	Total milk, thousand liters	Including cow milk

Processed at dairies	718,018	684,263
Other use: direct sales, on-farm and feed use	559,366	425,630
Total milk	1,277,384	1,109,893
Produced and Processed milk in 2009		
	Total milk, thousand liters	Including cow milk
Processed at dairies	635,333	594,415
Other use: direct sales, on-farm and feed use	560,189	447,722
Total milk	1,195,522	1,042,137
Produced and Processed milk in 2010		
	Total milk, thousand liters	Including cow milk
Processed at dairies	583,835	548,109
Other use: direct sales, on-farm and feed use	656,299	543,503
Total milk	1,240,134	1,091,612
Produced and Processed milk in 2011		
	Total milk, thousand liters	Including cow milk
Processed at dairies	562,800	533,135
Other use: direct sales, on-farm and feed use	684,911	559,898
Total milk	1,247,711	1,093,033
Produced and Processed milk in 2012		
	Total milk, thousand liters	Including cow milk
Processed at dairies	532,623	499,011
Other use: direct sales, on-farm and feed use	672,682	562,187
Total milk	1,205,305	1,061,198

Table 5. Milk Production and Processing, 2010-2012

Milk Production and Processing, 2010-2012							
Type of milk	**2010**		**2011**		**2012**		2012/2011 Percent Change
	000 liters	percent of total processed	000 liters	percent of total processed	000 liters	percent of total processed	

		milk		milk		milk	
Cow milk	548,109	93.9	533,135	94.7	499,011	93.7	-6.4
Sheep	29,163	5.0	22,642	4.0	24,390	4.6	7.7
Goat	4,502	0.8	4,803	0.9	6,925	1.3	44.2
Buffalo	2,061	0.3	2,220	0.4	2,297	0.4	3.5
Total	583,835	100.0	562,800	100	532,623	100.0	-5.4
Source: Source: Bulletin 191, 2013, Statistical Office, MinAg							

In 2012, following two years of growth (2010 and 2011), total milk production declined by 3.4 percent. Cow milk supply was down by 2.9 percent and its share of total milk output was stagnant at 88 percent. The reduction in milk production was mainly due to lower cattle stock numbers which could not be offset by increasing productivity.

As a result of lower supply, total milk deliveries also dropped by 5.4 percent (following a reduction of 3.7 percent in 2011); for cow milk these indexes were at 6.4 percent down for deliveries and 0.4 percent more for other uses. The share of processed (delivered) milk in total milk output declined to 44.2 percent in 2012 compared to 45.1 percent in 2011. Direct sales of milk also dropped by 1.8 percent but increased for cow milk. Some independent and industry experts think that some of this cow milk is actually processed in the grey sector.

In 2012, the share of total processed milk declined for cow milk slightly to 93.7 percent, for sheep milk by 4.6 percent and for buffalo milk by 1.3 percent. Regarding other types of milk, a sharp growth in use for goat milk was noticed (by 44 percent), followed by more sheep and buffalo milk for processing (7.7 percent and 3.5 percent, respectively) due to the good local and export demand for these niche, higher priced products.

Processing plants continue to find it more cost efficient to import raw milk at competitive prices from other EU Member States rather than increase their farm collection which is costly. For this reason milk deliveries have declined as imports increased.

Milk Quotas

Bulgaria's national dairy quota for the period April 1, 2011 –March 31, 2012, was 1,028,838 MT, of which the allocation of 957,790 MT was for deliveries and 71,048 MT was for direct sales. Under this quota period 35,331 MT for deliveries and 9,575 MT for direct sales from the national milk reserve were distributed to 321 cow milk producers.
For the quota period April 1, 2012 – March 31, 2013, the national quota was 1,039,126 MT including 969,472 MT for deliveries and 69,654 MT direct sales.

For the quota period April 1, 2013 – March 31, 2014, the national quota has been increased by 10,391 MT to 1,049,517 MT. The national reserve distributed 27,706 MT for deliveries and 2,839 MT for direct sales to 202 farmers.

Over the last three years, Bulgaria filled about 45-50 percent of its milk quota. Due to shortage of milk

and current imports, the termination of quotas by 2015 is generating considerable discussion within the industry. Dairy processors think that lack of quotas will increase supply and reduce cost of milk in the EU and local markets at the detriment to smaller dairy operations not able to compete.

Dairy Processing

Table 6. Production of Processed Dairy Products in 2011 and 2012

Production of Processed Dairy Products in 2011 and 2012			
	2011	2012	2012 vs.2011 Percent Change
Packaged drinking milk, thousand liters	65,298	69,973	7.2
Packaged cream, MT	2,465	2,267	(-8.0)
Yogurt made from different types of milk	118,027	123,482	4.6
Flavored yogurt or milk desserts	13,702	15,308	13.9
Cheese, total	68,562	68,507	(-0.1)
-White cheese	44,263	45,221	2.2
--incl. cheese with plant fats	16,166	17,736	9.7
-Yellow cheese	19,507	17,796	(-8.8)
Fresh cheeses	4,070	4,949	21.6
Soft cheeses	1,031	1,359	31.8
Source: Source: Bulletin 244, 2013, Statistical Office, MinAg			

In 2012, production of most dairy products increased compared to 2011. The most significant was the growth in output of soft and fresh cheeses by 31.8 percent and 21.6 percent, respectively; followed by flavored yogurt at 13.9 percent, drinking milk at 7.2 percent, and plain yogurt at 4.5 percent. Output of white cheese was slightly higher, by 2.2 percent; however, this is mainly due to the considerable share (39 percent) and growth (9.7 percent) of cheese containing vegetable oils. The highest growth in cheese production was for non-cow cheeses produced from goat and buffalo milk (by 46 percent) due to good local and export demand although the volume remains small at 3,200 MT. Yellow cheese production was lower, by 8.8 percent, due to the decline in the type of yellow cheese from cow milk, while the one made from sheep and other milk grew by 33.1 percent and 22.7 percent, respectively (source: MinAg). Wholesale and Retail Prices of Dairy Products: Unlike the ex-farm milk price, in 2012 wholesale prices for all dairy products grew by 0.7 - 7.3 percent as compared to 2011. The highest price increases were for white cheese at 7.3 percent, yogurt at 6.9 percent and butter at 6.4 percent. Retail prices annual growth was 1.5 percent to 8.6 percent depending on the product. Butter and cow cheese have the highest growth at 8.6 percent and 8.1 percent, respectively.

For the first nine months of 2013, wholesale prices continued to increase: cow cheese by 7.2 percent, and butter by 6.6 percent, followed by yellow cheese at 3 percent, stable yogurt prices and some decline for drinking milk by 3.2 percent. In parallel, retail prices modestly grew with butter and cow cheese leading (6.1 percent and 5.3 percent, respectively).

Consumption

In 2012 the market slowly recovered with average annual consumption of dairy products at 67.4 kg per capita compared to 65.5 kg/capita in 2011. Consumption for almost all dairy product categories is believed higher as official statistical data do not include the HRI sector.

The highest growth in consumption is registered by "other" dairy products with 23.5 percent, followed by milk butter/oils by 14.3 percent; yellow cheese by 6.1 percent, yogurt by 4.7 percent, and white cheese by 1.6 percent. The only exception was drinking milk where consumption is slightly down by 1.5 percent.

This is in line with longer-term trends over the last 15 years. While total dairy products consumption (in volume) has not changed drastically and has been stable at 65-67 kilos/per capita, within this category the trends for various products differed. For example, drinking milk displays a clear trend of decline from 31.4 liter/capita in 1999 to 19.6 liters/capita in 2012 (-38 percent); but the opposite is seen with other products: yogurt consumption has grown from 22.2 kg/capita to 29 kg/capita in 2012 (31 percent); white cheese from 9.6 kg to 12.4 kg/capita (29 percent); yellow cheese from 2.3 kg to 3.5 kg/capita (52 percent) and other dairy products from 1.3 kg to 2.1 kg/capita (61 percent).

Trade

Imports: In 2012 total dairy products imported amounted to 92,922 MT or 6.6 percent less than in 2011. However, the trade value increased to 202 million USD, or 23.5 percent more than in 2011, as higher value processed products and less raw materials (concentrated milk, cream, and whey) were imported.

Concentrated milk and cream accounted for 41 percent of imports, with non-concentrated milk at 20 percent, followed by cheese at 15 percent. This type of imports partially offset the decline in local fresh milk supply. Imports of cheese and curd registered the most significant growth at 32.6 percent (14,000 MT) with Germany and Poland the principle suppliers.

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

Over the January–July 2013 period, dairy product imports amounted to 55,519 MT or 7 percent more than in the same 2012 period (source: MinAg). The largest growth in products imported is registered for cheeses, non-concentrated milk and cream. At the same time, imports of concentrated milk/cream were down which would relate to the higher price offered for these products at the EU level. Poland is now the leading exporter to Bulgaria, followed by Germany, Romania, and Hungary.

Exports:
In 2012, growth in dairy products exports continued. Total dairy products exports grew by 16 percent, to 46,692 MT, over 2011. Total export value grew by 10 percent, to 123 million USD, due to lower average prices (by 5 percent).

EU-funded promotional programs also contributed to this trend. The EU accounted for 83 percent of

total dairy exports with an annual growth of 17.3 percent vs. 2011 (38,830 MT, mainly to Greece (19,149 MT), Romania (10,289 MT), Germany (2,270 MT) and Spain (2,101 MT). Exports to the third countries also grew by 10 percent to 7,862 MT (USA, Lebanon, and Australia). More than half of exports were cheeses 23,494 MT as this represented 2.2 percent growth.

In 2013 total dairy exports are projected to continue gradual growth and reach 48,000 MT.

World Trade Atlas data for January-August 2013 (eight months) show the following:

Fluid Milk (HS#040110):
Imported volume over the eight month period increased by 77 percent to 1,019 MT (943 MT from Poland) compared with the same period in 2012. In 2012, total imports declined by 46 percent from 2011 (2,289 MT). In 2010, record imports (32,000 MT) were sourced mainly from Poland and Romania.

Fluid Milk (HS#040120):
Imported volume over the eight month period increased by 16 percent, to 16,842 MT (Hungary, Romania) year-over-year. In 2012, total imports decreased by 24 percent to 20,391 from 2011 (26,814 MT), sourced mainly from Hungary, Romania, Germany Poland and France.

Import of fresh fluid milk in 2013 and 2014 is projected to grow due to uncertainty with EU quality milk supply on the local market.

Butter (HS#040510 and HS#040590):
Combined imported volume over the eight month period was 3,785 BET (12 percent more than in 2012), sourced mainly from Germany. In 2012, total imports increased to 5,578 BET (45 percent growth), sourced mainly from Germany and Poland.

For 2013 and 2014, total butter imports are expected to remain stable at 5-6,000 BET per year.

Cheese (HS#0406):
Imported volume over the eight month period increased by 34 percent, to 11,248 MT, while its value increased 42 percent year-over-year. For 2013 and 2014, total cheese imports are expected to be steady at 14,000 MT. In 2012, total imports increased 32 percent to 13,966 MT from 2011, sourced mainly from Germany, Poland, France, and Greece.

Cheese remains a major export product of Bulgaria. Export volume over the first 8 months of 2013 totaled 15,167 MT (one percent more than in 2012 in volume and 11 percent more in value), mainly to Greece (5,838 MT) and USA (1,656 MT). In 2012, total exports increased by 2 percent to 23,496 MT, of which 7,561 MT went to non-EU countries (compared to 6,600 MT to external markets in 2011).

For 2013 and 2014, stable cheese production should translate to stable exports in the 23,000-24,000 MT range.

Non Fat Dried Milk (NFDM, HS#040210):

Imported volume over the eight month period increased by 36 percent, to 16,671 MT, year-over-year. In 2012, total imports increased 9 percent, to 19,000 MT, over 2011, sourced mainly from Poland, Holland, and Germany.

For 2013 and 2014, NFDM annual imports are expected in the 19,000-20,000 MT range due to tight fluid milk supplies.

In 2012, NFDM exports totaled 3,063 MT, all going to Greece.

Already in 2013 (through August) total exports are 3,586 MT, or 210 percent higher than in same period 2012. Destination is Greece.

Dairy, Whole Milk Powder (WMP, HS#040221 and HS#040229)
Imported volume over the eight month period declined by 69 percent, to 2,568 MT, year-over-year. In 2012, total imports fell to 11,262 MT, 13 percent less than in 2011, sourced mainly from Romania.

For 2013 and 2014, WMP annual import levels are projected to remain below 5,000 MT.

Promotional Programs - The Association of Milk Processors is actively working on EU-funded promotional programs for Australia and United Arab Emirates. The programs target Balkan ethnic market niches as well as wider audiences. The programs include exchanges and media outreach. The first dairy promotional program for Bulgarian cheese was completed successfully in August 2012. Total 1.5 million Euros were spent over the 3 years period to promote the product in Russia and Ukraine. The Association of Dairy Processors, another industry group, has promotional programs for Spain and Germany with similar goals.

As of November 2013, Bulgaria can apply to export cow cheese under EU quotas for the USA and the industry interest is considerable. Turkey opened its market for Bulgarian dairy products earlier this year after 15 years of restrictions.

Policy and Domestic Support

Milk Quality: In addition to requesting a third derogation for non-compliant quality milk, the MinAg announced other policy tools to support small dairy farms. This includes a special sub-program under the Rural Development Program 2014-2020 targeting such farms to be funded with the goal to upgrade as well as more liberal requirements regarding their investment projects: the subsidy may go up to 80-90 percent and the consulting and preparing of projects can be covered by the government. Another idea is to establish milk collection centers, about 150, for non-compliant milk, mainly in mountain regions.

Milk Purchasing Contracts – In early November, the Parliament adopted in the local legislation mandatory written milk purchasing contracts with the exception of direct sales. The contracts can be valid for minimum 6 months and should be registered with the Paying Agency.

Veterinary Service – According to the latest changes in the Veterinary Act, farmers can now choose

their veterinary doctors on the free market. To date, veterinary doctors had assigned regions and farmers had no choice. Farmers can change their contracts twice a year. Contracts can be for prevention/animal health work or/and for veterinary treatment/cure. The most significant change which causes concerns among farmers is the animal health prevention program which so far has been funded by the MinAg. Now farmers have to pay from own funds for the service and it still not known how smaller, cash-strapped farmers will be able to cope with this new challenge. The Cabinet will still fully cover the expenses related with the execution of the mandatory disease prevention and surveillance program (about 15 million leva or 7.7 million Euros for 2014).

Another change is related to mandatory ear marking. Since October 22, 2013, farmers can buy ear marks on their own by paying 60 percent of their cost to the Regional Offices of the Food Safety Agency (amendments to Decree #6 of October 8, 2013). The remaining 40 percent will be covered by EU state aid.

Regulations about Pasture Land Use- Over the last two months, the MinAg made a number of public statements that expected amendments to the Agricultural Land Law will allow dairy farmers to have easier and preferential access to municipal pasture land without tenders. Availability of pasture land is an issue for dairy farmers. Most of them do not own land and need to compete for municipally rented land with other, usually crop farmers, who can afford to pay higher rents. Grain/crop farmers manage pastures under agro-ecological subsidy schemes and in fact, often do not use pastures for animals. For this reason, another regulative change is planned for 2014-2020 subsidy programs which will not allow payments of subsidies for pastures if the beneficiaries do not raise pasture animals.

Domestic Support: Since August the MinAg has been under serious pressure to increase the domestic support subsidies for the dairy and livestock farmers due to numerous protests and road blockades. Based on the 2012 experience, farmers wanted to have 70 percent of subsidies paid earlier, in October 2013 and the remaining 30 percent in January 2014. The funds-strapped MinAg initially paid 40 percent, and then increased it to 50 percent. In October 2013, 14,000 farmers received 45 million leva (23 million Euro) national payments. However, under the pressure of street/highway/border points protests, on November 12 the MinAg closed on an agreement with the farm groups that 70 percent of national subsides will be paid out by mid-December. The total due amount for the dairy sector for 2013/2014 is 105 million leva (54 million Euros) of which 70 percent national payments and the rest is EU-funded coupled support.

According to estimates of the Ag Economics Institute, in 2012 the average subsidy (all types of subsidies) per dairy cow was estimated at 427 leva (219 Euro). In 2013 the subsidy amounts to 450 leva (231 Euro). The same analysis shows that the net return (excluding labor cost) from a dairy cow in 2012 was 1,511 Leva (775 Euro) and in 2013 will be 1,748 leva (896 Euro).

In 2014, 114 million leva (58 million Euros) will be paid to the dairy sector. Additional small top-ups will be paid to farmers with pasture land. Select farms will have access to “de minimis” funds of 7.5 million Euros. The excise tax on farm fuel used at dairy farms in 2014 will be reimbursed. Loans from the 2009-2010 period issued in support for feed will be re-scheduled by the Paying Agency and eventually converted into state aid. Finally, for 2014 coupled support valued at 6.5 percent and direct subsidies for 2014-2020 valued at 13 percent were agreed to be allocated only for the horticulture and dairy/livestock sectors.