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Post: Sofia

Distilled Spirits Market Brief

Report Categories:
Market Development Reports
Beverages

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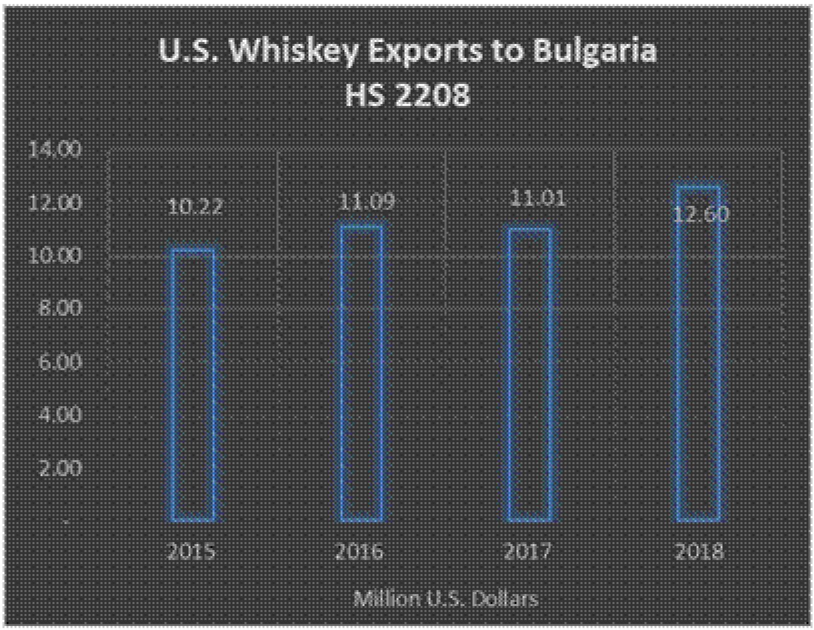
Report Highlights:
As Bulgaria's thirst for distilled spirits continues to grow, U.S. whiskies are increasingly popular. According to 2018 Bulgarian National Statistical Institute (NSI) data, U.S. distilled spirit exports to Bulgaria exceeded $12.6 million, a 15-percent increase over 2017, despite the European Union's (EU) 25-percent tariff on U.S. whiskey imports.

General Information:

SECTION I. MARKET OVERVIEW

In 2018, Bulgarian imports of U.S. distilled spirits were roughly $12.6 million, a 15-percent increase over 2017 (Source: NSI Transshipment Statistics). According to NSI food and beverage consumption data, per capita alcoholic beverage consumption in Bulgaria averaged 28.9 liters. 85 percent of Bulgaria's 7.05 million inhabitants are over the age of 15. The legal age to consume and purchase of alcohol in Bulgaria is 18 years.



In an effort to curb what it perceived as excessive alcohol consumption, in 2004 the Bulgarian Parliament amended the Public Health Act to limit advertising for beverages above 15 percent alcohol by volume (ABV). As a result, direct advertising for distilled spirits was restricted, although indirect advertising could continue on radio or television after 10:00 p.m. These restrictions forced importers to revise marketing strategies toward more direct and on-site promotions in retail outlets, bars and nightclubs, and billboard advertising. Promotional activities by Maxxium, Brown-Forman (Coca Cola HBC), Transimport, Pernod Ricard, and Diageo (Avendi) have contributed significantly toward growing the market and increasing imports.

In 2012, a comprehensive indoor smoking ban was introduced, which included bars, restaurants, and other public places. The ban was challenged by the bar and restaurant sectors due to concerns about loss of business. Although these sectors were negatively affected immediately following implementation, they adjusted by expanding outdoor seating business ultimately resumed to pre-ban levels.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Opportunities & Challenges of the Distilled Spirits Market in Bulgaria

Opportunities	Challenges
Consumers consider U.S. products to be high quality, especially in premium segments.	Bulgaria's spirits market remains price sensitive and consumers tend to prefer products on promotion.
Many young Bulgarians maintain U.S. ties through travel, education, and business exchanges. Many young consumers identify with new U.S.-product trends.	On-trade representatives still report decline in sales due to the smoking ban in public places.
Shifting consumer trends and demographics require product innovation and wider choices (introduction of flavor whiskey lines and mixed drinks).	Homemade brandy and rakia account for about half of the consumption. Consumers are increasingly interested in wine and beer.
The Bulgarian retail market is growing and increasing volumes, offering more consumers access to modern retail options.	Retailers often charge high listing fees and require frequent product promotions.
Consumers are receptive to modern and innovative products. Increasing wages and low unemployment create demand for premium brands.	Growing health-consciousness creates demand for lower alcohol content drinks such as wine, beer, and cocktails.

Market Entry Strategy

Most U.S. whiskies enter the Bulgarian market via importers and distributors servicing supermarkets, hypermarkets, convenience stores, forecourt retailers, or dedicated liquor and/or tobacco stores. The remaining portion typically enters the market through the hotel, restaurant, and institutional (HRI) channels. At-home consumption of alcohol prevails in Bulgaria due to price sensitivities. In 2017, imported spirits account for about 16 percent of consumption, a slight increase over 2016. Demand growth for imported spirits suggests that consumers are slowly switching from local to imported products, especially younger consumers. Sofia, Plovdiv, Varna, Burgas, and Ruse together accounted for about 70 percent of imported spirit sales.

Currently, the largest distilled spirit importers and distributors in Bulgaria are Maxxium, Avendi, Pernod Ricard, Transimport, Sofstok, and Selected Brands. In 2014, Coca-Cola HBC acquired Brown-Forman's regional portfolio. In 2016, Coca-Cola HBC also acquired the distribution rights for Edrington Group's brands, making it one of the largest spirit stakeholders in Bulgaria.

Distribution channels are important for product development, especially for promoting new-to-market products. Sponsored promotions are increasingly held on-site in grocery stores and hypermarkets due to the abovementioned advertising restrictions. Sponsored promotions are crucial for new spirit-based cocktail drinks.

U.S. exporters can obtain up-to-date listing of Bulgarian importers and distributors of distilled spirits by contacting the U.S. Embassy's Office of Agricultural Affairs (OAA) (see Section IV). OAA Sofia is happy to provide shippers of new-to-market products with support and/or market information when planning entry/expansion in the Bulgarian market.

Local Organizations:

- **Bulgarian Association of Producers, Importers and Traders of Spirit Drinks (APITSD)** - non-profit organization with main mission to regulate the professional relations among the member-companies as well as to ensure the support of the Bulgarian government to the local spirits producers, importers and traders.

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Intransmash Buildings, 40 Bratya Bakston Str, floor 5
Telephone: +359-2-956-60-90
Fax: +359-2-956-60-92
e-mail: office@spirits.bg

- **Ministry of Agriculture and Food**
  Marketing and Control Department
  55 Hristo Botev Blvd, 1040 Sofia
  Telephone: +359-2-985-11-199
  Fax: +359-2-980-58-31
  Website: www.mzh.government.bg

- **Customs Agency**
  47 G. S. Rakovski Str., 1202 Sofia
  Telephone: +359-2-985-94-210 / 985-94-213
  Fax: +359-2-985-94-061
  E-mail: pr@customs.bg
  Website: http://www.customs.bg/en/

American Trade Promotion Organizations:
Various regional and industry organizations in the United States offer marketing support to their members targeting foreign markets. General tools offered by the organizations include trade delegations to key foreign markets and exhibition booths in key trade shows.

- **Distilled Spirits Council of the United States** (DISCUS)

1250 I Street, NW, Suite 400
Washington, D.C. 20005
Telephone: +1-202-628-3544
Website: www.distilledspirits.org

- **Food Export Association of the Midwest USA**

309 West Washington St., Suite 600
Chicago, Illinois 60606
Telephone: +1-312-334-9200; Fax: +1-312-334-9230
E-mail: info@foodexport.org
Website: https://www.foodexport.org/who-we-are/food-export-midwest/

- **Western United States Agricultural Trade Association (WUSATA)**

4601 NE 77th Ave, Suite 240
Vancouver, WA 98662
Telephone: +1-360-693-3373; Fax: +1-360-693-3464
E-mail: export@wusata.org
Website: www.wusata.org

- **Food Export USA - Northeast Region of the United States**

One Penn Center 1617 JFK Blvd, Suite 420
Philadelphia, PA 19103
Telephone: +1-215-829-9111; Fax: +1-215-829-9777
E-mail: info@foodexport.org
Website: https://www.foodexport.org/who-we-are/food-export-northeast/

- **Southern United States Agricultural Trade Association (SUSTA)**

701 Poydras Street, Suite 3845
New Orleans, LA 70139
Telephone: +1-504-568-5986; Fax: +1-504-568-6010
E-mail: susta@susta.org
Website: www.susta.org

Market Size, Structure, Trends

The total number of retail outlets in Bulgaria currently stands at 41,872, of which 3,683 are modern grocery outlets. According to Euromonitor, in 2018 modern-retail sales exceeded BGN 4.16 billion ($2.43 billion) and accounted for 64 percent of market share. The remaining 36 percent, almost BGN 2.34 billion ($1.37 billion), was held by 38,189 traditional grocery outlets throughout the country. Retail chains in Bulgaria are constantly expanding their networks, and are among the largest investors in the country. For more comprehensive information about the Bulgarian retail market, please refer to FAS Sofia's latest Retail Market report.

Specialty outlet stores dedicated only to alcoholic beverage sales (spirits, wine, and beer) are emerging in large cities and expanding to the rest of the country. Many offer premium imported brands and rare, hard-to-find varieties of products. Significantly, they also guarantee quality, a key factor in Bulgaria. There are no restrictions about operating hours for retail or HRI outlets that offer alcoholic beverages. Many shops are open around the clock and offer alcohol at any time of the day.

Total spirits consumption in 2018 is estimated at nearly 9 million 9-liter cases. Wine consumption is estimated at about 14.4 million 9-liter cases, and beer at about 4.6 million hectoliters (HL). Consumption of other alcoholic beverages such as fermented beverages made from sorghum, rice, cider, etc. is not significant, although cider consumption has increased in recent years.

Wines and Spirits Consumption: Thousand 9 Liter Cases

	2016	2017	2018
Wine*	13,670	14,046	14,399
Spirits**	8,571	8,710	8,975

Source: Industry sources

***Wine includes still light, sparkling, fortified, other wines, and aperitifs.*
***Spirits includes whisky, vodka, gin, tequila, rum, brandy (including locally produced rakia), flavored spirits, mixed drinks, and other spirits.*

The internal changes taking place within the spirits industry in recent years have been dynamic. Rakia and vodka are the most important product types in volume terms and their overall industry performance to a big extent determines the performance of other types of spirits.

Spirits Consumption by type: Thousand 9 Liter Cases

	2016	**2017**	**2018**
Rakia	3,849	3,918	4,190
Vodka	1,634	1,625	1,520
Whiskey	1,164	1,188	1,237
Gin	78	83	86
Flavored Drinks	1,569	1,605	1,640
Rum	49	59	67

Source: Industry

Rakia is the Bulgarian national drink and most popular spirit, accounting for more than 46 percent of total spirits consumption. The tourism and hospitality industry have helped to increase rakia sales, as tourists are often eager to sample Bulgaria's most traditional drink. Rakia is often consumed during meals and appeals to older generations. Vodka and whiskey are more versatile and can be consumed in cocktails, which appeals to a wider variety of consumers and drives sales in more diverse commercial outlets. Although low- and mid-priced brands dominate these categories, premium-product sales are growing along with growth in modern retail and more higher-income consumers in urban areas. Homemade rakia still accounts for a large portion of total consumption. However, there is no official statistics about backyard spirit production. Unofficial data indicates that 45-50 percent of total spirit consumption comes from backyard distillers.

Vodka is the second largest product area in spirits after rakia and accounts for almost 17 percent of total consumption. Vodka sales have declined over the last three years, but this can be attributed to consolidation among a few large domestic producers and importers, as well as marketing issues. Competition between domestic producers and importers is intense. Locally produced brands account for about 85 percent of total vodka consumption, as price-sensitive consumers tend to care less about vodka quality. Unlike whiskey, vodka drinkers are not particularly brand loyal. Both flavored and unflavored vodkas are promoted, which helps generate interest in vodka as a whole. Some consumers are shifting from vodka to whiskey due being influenced by marketing and a perception that whiskey is a higher-status product.

Vodka Consumption – Local vs. Imported

Thousand 9-Liter Cases	**2016**	**2017**	**2018**
Local	1,387	1,373	1,264
Imported	247	253	257

Source: Industry

Whiskey sales are increasing in volume with low- and mid-range brands having better consumer acceptance than the premium category. In 2018, Scotch whiskies were the undisputed whiskey leaders with 38 percent share, followed by Irish whiskey with 13 percent, and U.S. bourbon and Tennessee whiskies combined with nearly 11 percent. Local whiskey consumption is also significant with about 37 percent of market share. Canadian, Japanese, Taiwanese, and other imported whiskies represent less than one percent of sales.

U.S. whiskies introduced new product lines such as Jack Daniel's Honey, Jim Beam Honey, Jim Beam Apple, and Jim Beam Red Stag, which boosted sales without decreasing original brand sales. Post expects that whiskey sales will grow as a result of promotional activities and price competition, as well as the perception by many consumers that whiskey more upscale. Consumption of ready-to-drink bottled and canned low-alcohol beverages, including whiskey-based cocktail drinks, has declined recent years, although these products remain popular in bars and nightclubs, especially during the summer tourist season.

Whiskey Market Share (By Origin)

Thousand 9 Liter Cases	**2016**	**2017**	**2018**
Total Scotch	440	450	465
Total Irish	179	172	171
Total U.S.	110	123	132
Total Other (Canadian, Japanese, Bulgarian, etc.)	434	442	467
Total Whiskey	**1,163**	**1,187**	**1,235**

Source: Industry

Whiskey Consumption – Local vs. Imported

Thousand 9 Liter Cases	**2016**	**2017**	**2018**
Local	433	441	465
Imported	731	746	771
Total	**1,164**	**1,187**	**1,236**

Source: Industry

Despite market challenges, American whiskey showed steady growth of 7.4 percent in 2018, with sales mainly driven by Jim Beam and Jack Daniel's. Relatively new-to-market products like Jim Beam Signature Craft and Jack Daniel's Honey helped maintain consumer interest in these brands. Newer additions like Bulleit, Hudson, Knob Creek, and Basil Hayden's have also stirred consumer interest in U.S. whiskies. In 2018, Maker's Mark sales grew by 91 percent over 2017.

Irish whiskey sales have declined in volume and value during the past three years. Jameson, Bushmills, Tullamore Dew, and Paddy tend to be the most widely consumed Irish whiskey brands.

Gin, rum, tequila, cognac, and rum showed the most notable growth in 2018, mainly due to the increasing popularity of cocktail culture among millennials and female consumers. Post expects sales of these products will continue to grow, provided companies keep investing in marketing and promotional activities. Gin, tequila, and rum tend to peak in popularity during the summer and sell mainly through HRI channels, especially at Black Sea resorts.

SECTION III. MARKET ACCESS

Tariff Schedule

The EU maintains a unified tariff schedule and lists actual tariff rates for different products. For more detailed information please refer to TARIC database. Post notes that each group has a sub-group. For example bourbon whiskey has TARIC code 2208 30 11, under its dominant group 2208 30 - Whiskeys.

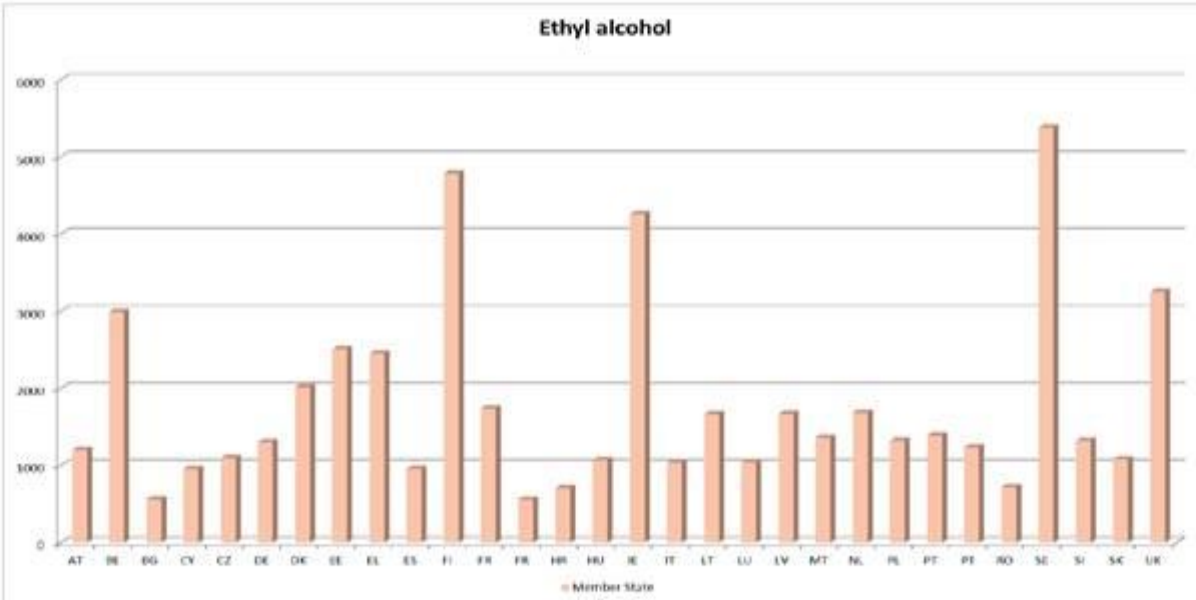
HTS Codes and Descriptions

HTS Code	Code Description
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 percent volume or higher; ethyl alcohol and other spirits, denatured, of any strength
2207 10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 percent volume or higher
2207 20	Ethyl alcohol and other spirits, denatured, of any strength
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 percent volume; spirits, liqueurs and other spirituous beverages
2208 20	Spirits obtained by distilling grape wine or grape marc
2208 30	Whiskies
2208 40	Rum and other spirits obtained by distilling fermented sugar-cane products
2208 50	Gin and Geneva
2208 60	Vodka
2208 70	Liqueurs and cordials
2208 90	Other

Excise and Value Added Tax (VAT)

EU legislation sets harmonized minimum rates, although EU members are free to apply excise tax rates above these minima, based on their own national needs. The minimum rate set per HL of pure alcohol is EUR 550. Bulgaria's excise taxes are currently the lowest in the EU at €562.43. For more detailed information about the excise tax rates for alcoholic beverages applicable in the EU, please refer to the official web page of the General Taxation and Customs Union Directorate at the European Commission, here. Full list of the excise tax rates applicable in the EU as of January 1, 2019 is available here. The VAT rate in Bulgaria is 20 percent.

Excise Tax Rates in the European Union (EU)



Source: EU- [Taxation and Customs Union]

Labeling Requirements
Labeling information must be written in Bulgarian and has to include these requirements:

- Product type
- List of ingredients
- Net quantity in metric units
- Date of minimum durability.
- Special conditions for keeping or use (if applicable)
- Name or business name and address of the manufacturer, packager or importer established in the EU
- Country of origin or provenance
- Alcohol content for beverages containing more than 1.2 percent by volume
- Lot identification with the marking preceded by the letter "L"

Language requirements
Detailed information related to the EU requirements for labeling, licensing, required documents and import procedures, taxes/tariffs and contacts can be found on the website of the U.S. Department of Treasury Alcohol and Tobacco Tax and Trade Bureau. Additional information can be obtained from EU Regulation 1169/2011 on the provision of food information to consumers and at the web page of the United States Mission to the European Union.

SECTION IV. POST CONTACTS AND FURTHER INFORMATION

For further information about the Bulgarian agricultural market, please refer to Bulgaria OAA's latest Exporter Guide report, which provides substantial information about the economics, business environment, U.S. export opportunities in Bulgaria, etc. For a current list of importers and additional assistance, please contact:

Office of Agricultural Affairs

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