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Organic Annual Report

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Agricultural Situation

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Report Highlights:
Bulgarian consumer demand for organic food and beverage products increased in 2017/18 due to growing economic stability, stronger purchasing power, and rising consumer demand for products perceived as healthful. Sales of organic foods and beverages reached a record €28 million and prospects in 2019 and 2020 look to be promising. Strong competition among organic suppliers and rising demand drive new-to-market products and higher sales.

The number of domestic organic producers declined by seven percent in 2017. Bulgaria’s 2017 organic area planted accounted for 2.7 percent of its total agricultural area, down from 3.2 percent in 2016. In 2018, the Government of Bulgaria’s (GOB) Government Audit Chamber issued a less-than-positive report of the GOB’s handling of the organics sector, which spurred the Ministry of Agriculture (MinAg) to introduce regulatory changes aimed at better certification oversight and more domestic support for organic farmers.

General Information:

Overview

Bulgaria's economic growth over the last two years has been a significant driver of consumer demand for organic products. Urban and higher-income consumers increasingly perceive organic as more environmentally friendly and healthful, thereby making organic products more attractive to many urban 'lifestyle' consumers. The range of organic products on the Bulgarian market have also diversified, enabling more middle-income consumers to buy organic.

Bulgarian organic production has struggled in recent years due to challenges with certification oversight and shrinking subsidy payments for farmers. These factors have led to fewer organic stakeholders and a decline in the organic area. MinAg is currently assessing ways to reverse this trend through new regulatory controls over the organics industry.

Disclaimer: Official data about the organic sector is scarce and not publicly available. Information in this report is based on a wide range of sources, such as MinAg's 2018 Annual Agrarian Report, Eurostat data, industry and trade interviews, industry/NGO/research publications, *Euromonitor,* and specialized agricultural media. Every effort was made to use reliable sources, given the absence of official statistics. Some data included in this report are based on trade estimates.

Organic Farm Production

After years of consistent growth, Bulgarian organic agriculture began to face challenges in 2017, mostly due to regulatory and certification issues, as well as reduced subsidies and other issues related to domestic-support policies. Local processing capacity remains low and a severe labor shortage presents other challenges for the industry.

The number of organic operators (producers, processors, traders, etc.) as of late 2017 declined by six percent from the same period in 2016 (Table 1). The number of organic farms in 2017 decreased by seven percent from 2016. Organic farmers accounted for 7.1 percent of all farmers in 2016, down from 7.4 percent in 2015 (Ministry of Agriculture Annual Report 2018). Bulgaria also reported 20 percent fewer organic food processors. However, the number of traders in 2017 increased by 70 percent over 2016.

The total organic area (both certified organic and land under conversion) in 2017 declined by 15 percent from 2016 to 136,629 hectares (HA) and accounted for 2.7 percent of total agricultural land, compared to 3.2 percent in 2016 (Table 2). Land under conversion continued to exceed certified-organic area, although the gap narrowed. 65 percent of organic acres were still undergoing the conversion process, compared to 78 percent last year. Fully-converted organic area increased by 34 percent (48,453 HA) and accounted for 35 percent of the total organic area, versus 22 percent in 2016. Over the next few years, the fully-converted organic area is likely to continue to expand.

Arable organic land accounted for 48 percent of the total organic area. About 29 percent was permanent grassland. Land certified as 'ecologically clean' (273,000 HA) also yielded wild plants, herbs, and forest fruits, most of which can be certified as organic and exported (source: Ministry of Agriculture

Annual Report 2018). This marks an 11-percent decline from 2016.

Organic Crop Production

Area under organic-crop production (land still being converted and certified) in 2017 declined for all crops from 2016 (Table 3). Lower subsidies for farmers during the conversion process particularly drove a reduction in area undergoing conversion The share of fully-converted organic area in 2017 also declined, although was still significant for some categories, including 34 percent for pastures, 38 percent for permanent crops (e.g. orchards, vineyards), and 17 percent for vegetables.

2017 marked a milestone for organic cereal production, as for the first time, the entire organic cereal area was fully harvested (MinAg Annual Report 2018). As a result, 2017 organic grain production grew by 270 percent over 2016. Organic sunflower production increased by 245 percent over 2016. Area under permanent crop coverage decreased by eight percent, which production for these crops also declining by 20 percent from 2016.

Processing-capacity growth for essential oils increased the area planted for essential-oil crops, as well as the certified area for these crops. Reportedly, the number of essential-oil distilleries increased to 150 in 2018. 27 more essential-oil distilleries are also expected to come online over the next two years. Production of essential oils, excluding lavender and rose oils, in 2017 was estimated to reach about 12,000 MT, up from about 4,000 MT in 2016 (Inteliagro).

Lavender production expanded sharply in recent years due to favorable international demand for lavender oil. The total lavender area in 2017 grew by 42 percent to 9,789 HA and production by 43 percent to 27,659 MT over 2016. According to industry sources, the 2018 crop was lower due to climatic conditions (rainy and cool June) and prices increased. Over 70 percent of processed lavender products are exported.

In 2018, 16,000 MT of roses were harvested from 3,600 HA, which drove a substantial increase in rose oil production. The bumper rose crop led to lower farm-gate prices and to subsequent farmer protests. The GOB intervened and introduced the so-called Rose Act, which aims to eliminate illegal rose farming and fraudulent rose oil manufacturing. The bill was published for public comments in October 2018 and should be voted by the Parliament in early 2019. In addition, 850 rose producers received *de minimis* subsidies at a rate of €264/HA.

Organic Animal Production

Organic animal production has grown, although it continues to lag behind organic-crop production (Table 5). In 2017, the organic dairy herd grew by seven percent over 2016. The goat herd also increased by 9.5 percent, and beehives by six percent. Still, the share of organic animals remained at just three percent of total for cows, sheep, and goats, and 33 percent for beehives. Organic apiculture rapidly expanded and organic honey was a major Bulgarian export. 2017 organic honey production increased by 94 percent to 3,800 MT in line with higher organic beehives.

Certification and Control

In 2017, organic certification was conducted by 17 certification bodies, six of which were Bulgarian, and 11 from other EU countries. (Ministry of Agriculture Annual Report 2018). As certification is required for subsidy eligibility, there was a sharp increase in the number of certifiers.

Bulgarian authorities and industry have identified organic certification as a major challenge for the sector. Industry sources cite that the number of certifiers is too high relative to the number of organic operators. The competition among the certifying bodies, coupled with an environment of insufficient oversight results in dubious certifications. Reportedly, such cases are more common for beehives, pastureland, and grassland. In 2018, 96 organic certificates were canceled due to certification irregularities.

In September 2018, the MinAg updated a major regulation vis-à-vis organic production, labeling, and oversight (Decree #5, September 3, 2018). The changes therein entered into force on November 11, 2018. In November 2018, the MinAg also improved its administrative capacity and increased the staff involved in organic regulations.

Organic Market Size and Trends

As Bulgaria's economy and purchasing power continued to improve in 2017/2018, the popularity of 'lifestyle' products also grew. More and more Bulgarian consumers, particularly those in urban areas and with more disposable income, choose to perceive hat organic food is more healthful than conventional foods. Many websites and social media also push the notion that organic is more healthful, higher quality, and tastier than nonorganic. Advertising and marketing campaigns also shaped consumer perceptions and emphasized the category and not brands. Public awareness about organic continues to increase. As organic products have become fashionable, some food and beverage processors have rebranded and repositioned their products in an effort to market organic foods being outside of organic's current urban and upper middle-class demographic.

The total organic consumer market in 2017 was estimated at €28 million. This included sales of organic packaged food (€13 million), beverages (€4.0 million), and sales of organic products via farmers markets (mainly fresh produce) and social platforms (€11 million). The estimates about the size of the organic food market were at around 1.5 percent of the food and beverage market.

Despite growing demand, organic products are still more expensive than some nonorganic, but other 'lifestyle' categories (e.g. "better for you", "free from XYZ", "functional", "naturally healthy", etc.). According to market studies in 2017, market share for organic foods and beverages was only three percent, versus 58 percent for "naturally healthy" and 28 percent for functional foods. However, the growth in organic sales in 2017 over 2016 was at 6.2 percent comparable to 7.0 percent for the "naturally healthy" and 9.8 percent for functional-food categories. Industry estimates expect 2018 sales growth for organic to be four percent higher than 2017, and further forecast an additional eight percent growth in 2019 over 2018. Longer-term projections are for a 13-percent increase in organic sales by 2022 compared to 2018.

Organic packaged-food sales in 2017 grew by seven percent growth over 2016, reaching €13 million. Packaged food is forecast to grow another four percent in 2019 over 2018, and 11 percent by 2022 compared to 2018. Imported organic packaged food dominates the market. Modern retailers are the main channel and account for about 68 percent (65 percent last year) percent of organic packaged food sold via this channel versus 32 percent (35 percent last year) for traditional retailers. All retail chains have increased their inventories and diversity of packaged organic foods.

Shrinking price gaps between organic and conventional products encourage retailers to boost organic products' shelf space visibility. Metro Cash and Carry launched specialty "bio zones" in 11 outlets with over 1,500 types of organic products on sale, Kaufland and Lidl expanded their organic private-label presence and Billa began to distribute of the German organic brand, 'Alnatura'. Kaufland organic products are promoted under the 'K-Bio' private label. Metro Cash and Carry introduced its 'Fine Life Bio' private label. HIT supermarkets launched another German private organic label, 'Ja! Natuerlich'. The first organic supermarket, NaturaSi, an Italian franchise, opened in Sofia. This is the first outlet outside of Italy and is well perceived by Bulgarian consumers. It mainly offers German and Italian brands and focuses on premium products. Some smaller and more local retailers, including Balev Biomarket, Zoya BG, Zelen Bio, are beginning to stock organic products aimed at more price-sensitive consumers. Post expects that these efforts to market at more diverse demographics will support sustained demand for organic products in the future.

Leading organic food categories by sales were baby food, snacks, and dairy products. Baby food (€4.0 million sales in 2017) remained a leading food category and were typically offered by a few foreign companies. Baby food sales growth in 2017 was 6.1 percent higher than 2016. Organic snacks sales and those of dairy products had 9.3 and 8.2 percent growth in sales, respectively, in 2017 compared to 2016. The price still remained an important factor for purchases and encouraged more price promotions (bakery products, milk, cheese etc.) with significant reductions thus reducing the price difference with conventional products.

The retail market remains fragmented and is somewhat less dominated by multinational companies as in the past. The top five players accounted for 47 percent (51 percent a year ago) of organic packaged products sales. This included two multinational and three local companies. International companies drove the trends due to stronger marketing support while local companies expanded their presence and diversity of products.

Smaller stakeholders, mainly local companies, had market shares of about one percent. Main local stakeholders include Bio Bulgaria, Gimel, Smart Organic, Healthy Bars, Bioset, Bio Organic, Vitanea, and Konservinvest. Bulgarian companies dominated the categories of organic yogurt, cheese, fruits and vegetables, and bakery products. They strived to maintain consistent high quality and supply stability, despite supply and raw-material shortages. More and more local companies are suppling raw materials for production.

Organic beverage sales grew by five percent growth in 2017 over 2016 and were valued at about €4.0 million. Organic hot drinks and soft drinks increased their market presence in 2017/18. The growing coffee-shop culture among urban consumers is a driving factor. Organic coffee sales increased by five percent growth. Local fresh organic teas, juices, and private-label drinks showed good potential for growing sales. More private labels are likely to be seen for fruit concentrates and tea in 2019. Organic drink sales are forecast to grow by four percent in 2020 over 2018 and by seven percent by 2022 over 2018.

Sales prospects for 2019 and 2020 are positive, as continued economic stability and growing purchasing power will positively affect organic consumption, as well as drive more organic brands and product catagories. Strong competition in supply and increased demand are expected to make prices of organic products more acceptable and to boost sales.

Trade in Organic Products

Bulgarian exports of organic roses, lavender, and essential oils are usually bound for other EU markets and the United States. Total 2017 exports of essential oils (conventional and organic) (HS#3301) reached $102, a 54-percent increase over 2016. During January-August 2018, exports reached $66 million, a 16-percent increase over the same period in 2017. The main destinations in 2017 were the United States (37 percent) and France (27 percent), followed by Turkey and China. Exports of rose oil in 2017 (HS#330129) were reported at $89 million or 48 percent over 2016, and at $58 million in 2018 (first eight months), to traditional markets the United States and France.

Imported organic, high-value consumer products dominated with estimated over 60 percent market share. Most imports come from Austria, Germany, Italy, Greece, and the Netherlands. Currently imported organic products have better marketing, availability and choice for the local consumers. They are trusted for being genuinely organic. Increasing number of multinational brands have launched organic versions of their products.

The U.S. exporters of processed organic foods and food ingredients may benefit from the existing EU equivalency agreement. U.S. exporters can find detailed information about how to export organic foods to Bulgaria at: http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/organic-production/.

Agricultural Policy and Domestic Support

In June 2018, the Government Audit Chamber published an audit report on organic production for the period 2015-2017. The report criticized the authorities for weak oversight on production and trade in organic products which "did not protect consumers' interests".

The report stated that the fast growth in organics and the number of farmers was driven by subsidies and not by market demand. Most interviewed farmers showed no or minimal sales and declared subsidies as the only source of income. The auditors made six major recommendations to authorities which were adopted by the MinAg and resulted in updated regulations introduced in the fall of 2018.

In 2017 and 2018 the local organic farmers' association (Bulgarian Association Bioprodukti)/BAB publicly commented that the main challenges were the domestic support system, which they claimed results in the concertation of subsidies among larger farmers, who apply organic production methods only to access subsidies and produce little or no product. The BAB appealed for fair payment of subsidies to legitimate, "genuine" organic producers.

MinAg recognized the deficiencies identified by the Audit Chamber and the industry and introduced more stringent measures for control in November 2018. This included a consistent monitoring on land used for organic production, updated database for organic farmers, and a new unified information system for producers, processors and traders of organic products.

Appendix: Bulgarian Organic Industry Statistical Indicators

Table1. Organic Farming and Food Processing Indicators

Organic Farming and Food Processing Indicators (in numbers), 2013-2017					
	2013	**2014**	**2015**	**2016**	**2017**
Total producer operators	NA	4,092	6,173	7,262	6,822*
-Agricultural Producers	3,854	3,893	5,919	6,964	6,472*
-Processors	92	132	161	175	181*
-Other (traders)	36	49	74	98	169*
Food processors	NA	NA	250	253	202
-Fruit and vegetable processors	21	20	45	54	74
-Dairy processors	9	14	26	29	12
-Grain/ milling processors	0	1	24	23	5
-Bakery processors	4	10	20	20	10
-Other food processors	45	70	83	95	58
Beverage processors	6	15	22	21	15
Wine makers	2	4	14	17	11
Source: Eurostat *Note: The data is based on Bulgarian Ministry of Agriculture 2018 Annual Agrarian Report					

Table 2. Agricultural Land under Organic Production

Agricultural Land under Organic Production, Indicators, 2013-2017					
	2013	**2014**	**2015**	**2016**	**2017**
Total fully converted and under conversion to organic farming agricultural land, HA	56,287	47,914	118,552	160,620	136,618
-In percentage to total utilized agricultural land	1.13	0.96	2.37	3.20	2.72
Fully converted to organic farming, HA	15,161	15,170	21,539	36,137	48,453
Under conversion to organic farming, HA	41,126	32,744	97,013	124,484	88,164
-Total fully converted and under conversion to organic farming land arable land*, HA	23,936	26,383	60,810	88,711	66,211
-Fallow land, HA	2,905	2,205	6,209	8,075	7,782
-Permanent grassland, HA	15,476	12,089	31,796	38,736	39,921
Source: Eurostat					

Table 3. Agricultural Land under Organic Crops

Agricultural Land under Organic Crops, 2013-2017, HA					
	2013	**2014**	**2015**	**2016**	**2017**
Cereals	7,669	10,795	22,184	30,933	16,594
-Wheat	3,941	6,459	15,195	16,677	11,945
-Barley	688	1,192	2,536	4,474	1,279
-Corn	878	1,528	2,313	2,289	1,402
Sunflower Seeds	2,028	3,282	6,616	9,106	4,528

Aromatic, medicinal and culinary plants	6,536	5,577	11,456	18,089	16,859
Fresh vegetables (including melons and strawberries)	1,037	1,134	1,847	3,664	2,883
Permanent crops for human consumption	NA	9,442	25,920	33,108	30,478
-Fruits, berries and nuts	NA	6,512	21,722	27,717	26,386
-Pome fruits	NA	431	702	900	757
-Stone fruits	NA	1,612	4,581	6,757	5,935
-Nuts	8,947	3,677	15,366	18,484	17,985
-Grapes	3,872	2,914	4,199	5,390	4,092
Source: Eurostat					

Table 4. Production of Organic Crops, MT

Production of Organic Crops, 2013-2017, MT					
	2013	**2014**	**2015**	**2016**	**2017**
Cereals	3,548	7,671	5,619	5,943	16,152
-Wheat	2,366	3,014	3,452	3,264	11,135
-Barley	216	477	158	457	877
-Corn	373	2,216	976	955	1,818
Sunflower Seeds	1,296	843	1,942	1,558	3,816
Aromatic, medicinal and culinary plants	1,149	5,614	5,813	6,628	9,321
Fresh vegetables (including melons and strawberries)	5,443	10,152	12,622	13,800	6,986
Permanent crops for human consumption	NA	8,906	14,153	21,738	17,373
-Fruits, berries and nuts	NA	6,278	7,765	14,048	12,127
-Pome fruits	NA	1,145	1,507	2,621	3,067
-Stone fruits	NA	2,478	3,381	7,745	4,658
-Nuts	198	505	850	1,430	1,140
-Grapes	3,428	2,623	6,388	7,690	5,245
Source: Eurostat					

Table 5. Organic Livestock and Products

Organic Livestock and Products, 2013-2017					
	2013	**2014**	**2015**	**2016**	**2017**
Organically raised animals					
Live bovine animals, head	1,311	1,344	4,209	9,718	10,400
• Dairy cows, head	535	789	1,777	2,906	2,955
Live sheep, head	7,894	7,250	18,792	26,809	25,959
Live goats, head	3,235	3,201	5,381	8,242	9,023
Live poultry, number	500	500	3,041	3,926	3,122
Bee (hives), number	117,360	89,553	178,331	236,462	250,434
Organic animal products					
Meat of livestock, MT	NA	NA	NA	373	212

Cow milk, MT	827	1,124	5,468	6,973	6,430
Ewes' milk, MT	325	380	1,455	768	766
Goats' milk, MT	1,042	983	424	898	1,336
Cheese, MT	26	263	31	156	203
Yogurt, MT	58	238	191	240	83
Drinking milk, MT	226	13	99	253	845
Honey, MT	1,606	1,517	2,160	1,941	3,760
Source: Eurostat					