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Organic Market Update

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Report Highlights:
Organic agriculture in Bulgaria is developing rapidly due to generous EU subsidies, higher local purchasing power, and growing consumer demand. In 2016, the number of organic producers grew by 18 percent and organic area increased by 37 percent, accounting for 3.2 percent of Bulgaria's total production area. Due to Bulgaria's lower processing capacity, over 80 percent of organic agriculture is exported for value addition. Conversely, specialized retailers and supermarkets continue to depend on imported packaged organic foods and beverages for consumer sales.

General Information:

Overview

Over the last two years, Bulgarian interest in organic farming has grown considerably, driven by export demand, high EU production subsidies, favorable governmental policies, and rising local consumer demand. Organic products are penetrating more market categories. The market for organic foods is estimated at about $33 million for 2017, a six-percent increase over 2016. Younger, more urban, and higher-income consumers increasingly perceive organic as more environmentally friendly and healthful, making it more attractive to 'lifestyle' consumers (see Attaché Report BU1653).

Organic baby foods are the best-selling category, with chilled and processed meat, seafood, and reduced-fat milk experiencing year-on-year, double-digit sales growth. Despite steadily growing demand, limited purchasing power still remains a challenge and shifts consumers toward more affordable nonorganic alternatives, particularly products which are marketed as 'natural', 'healthy', 'gluten free', 'fat free', 'GMO free', etc. Availability, choice, and affordability remain key factors motivating organic purchases by Bulgarian consumers.

Bulgaria continues to be a leading EU exporter of certified-organic rose and lavender essential oils, as well as organic aromatic, medicinal, and culinary plants and herbs. Over 80 percent of locally-grown organic products are exported due to the lower processing capacity in Bulgaria.

Recent economic growth has boosted demand for organic products. 2017 sales of organic high-value, packaged foods were estimated at $19 million, a seven-percent increase over 2015 (source: *Euromonitor*). The organic foods market for all sectors was estimated at $30-$35 million, with growth in every market segment. New specialty retail outlets emerged along with larger dedicated shelves at supermarkets. The organic sector continues to face challenges related to purchasing power and consumer confidence in certification oversight.

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 the Bulgarian Ministry of Agriculture's 2016 Annual Food Report (published in 2017), Eurostat data, industry and trade interviews, industry/NGO/research publications, *Euromonitor*, and specialized agricultural media. FAS Sofia made its best effort to use reliable sources. However, given the absence of official statistics, some data included in this report are based on trade estimates.

Organic Farm Production

Bulgaria's climate and soil conditions are favorable for organic production (see Attaché Report BU1653). Generous EU production subsidies, strong export demand in Western Europe, and better local sales growth are also driving production in Bulgaria. Limited local processing capacity, still low (but growing) local purchasing power, and a severe labor deficit are major challenges affecting the Bulgarian organics industry.

Most Bulgarian organic farmers receive subsidies, under several domestic support programs, which make organic farming highly attractive. For example, in 2016, almost 10,000 farmers applied for subsidies under two EU-funded organics programs. Usage of these programs in Bulgaria increased by 30 and 50 percent, respective, over 2015. Subsidies authorized in June 2017 under these two programs totaled $56 million (source: MinAg Annual Report 2017). In early 2018, the Ministry of Agriculture and Foods (MinAg) reported faster-than-anticipated subsidy usage, which prompted MinAg to draft a new regulation to restrict new organic subsidy applications in 2018. Moreover, some limited subsidies are also provided to support local organic animal production. The two major programs used by organic farmers have 2014-2020 budgets of $127 million (for organic crops) and of $362 million (crops and livestock) or total $489 million of which $150 million were paid to date.

Production subsidies payable per hectare are driving double-digit growth in organic acreage. In 2016 organic acreage reached 162,352 HA, a 37-percent increase over 2015, and accounted for 3.2 percent of total agricultural land under production in Bulgaria. Land under conversion continues to far exceed converted organic area. 78 percent of organic acres are under undergoing the conversion process from conventional to fully organic. Fully-converted organic area accounted for 22 percent (36,150 HA). Over the next few years, fully-converted organic area will likely expand considerably.

Arable area accounts for 55 percent of total organic area (fully converted and in process of conversion) while about a quarter (24 percent) is permanent grassland (source: Eurostat).
Another 300,000 HA is the certified 'ecologically clean' and is used for collection of wild plants, herbs, and forest fruits as most of these products can be certified organic and exported (source: MinAg Annual Report 2017). This is a sharp decline compared to 2015 when this category of land was 900,000 HA.

The number of organic producers, processors, and traders (all organic operators) at the end of 2016 was 7,262, an 18-percent increase over 2015. Farms accounted for 96 percent of all organic operators. The number of organic farms in 2016 reached 6,964, also an 18-percent increase over the previous year. Organic farmers accounted for 7.4 percent of all farmers compared to 6.4 percent in 2015 (MinAg Annual Report 2017). Bulgaria also counted three aquaculture operations, 177 organic product processors, and 121 traders. This imbalance demonstrates the need for further organic processing capacity, which is still at an emerging.

Despite the growth in the number of organic farmers, withdrawal among farmers also remains high. In 2015, 966 farms, or 14 percent, dropped from organic production. This marked the second highest rate in the EU following Romania. At the same time, newly registered organic farms totaled 2,011 (3,149 farms in 2015). Post expects that this fluctuation is because farmers may be incentivized by subsidies, but become frustrated by the realities of demand and market prospects.

Organic Crop Production

The lack of correlation between the growth in organically certified areas, number of farms, and production of organic products continues (see Attaché Report BU1653). Average yields and production often lag behind acreage expansion, although total crop production tends to increase. Insufficient use of inputs, lack of knowledge, and low marketing capacity often leave larger non-harvested organic area. For example, non-harvested areas in 2016 reached 38 percent for pastures, 35 percent for perennial crops, and 68 percent for grains (MinAg Annual Report 2017). Reportedly, some registered organic pastures do not actually have grazing livestock.

The highest share in organic production in volume is permanent crops/orchards, vineyards, and tree nuts

(44 percent), followed by fresh vegetables (27 percent), aromatic, medicinal and culinary plants (14 percent), cereals (12 percent) and oilseeds (three percent).

Permanent crops for human consumption*:* Organic area under permanent crops (vineyards, nuts and fruit orchards) grew by 28 percent in 2016 over the previous year. Production under this category was 53 percent higher, due to a quicker rate of converted area, which grew 85 percent year-on-year. Organic vineyards area experienced 28-percent growth, while organic grape production increased 20 percent over the previous year. Wine grapes accounted for the major share of organic vineyards, but certified table grape area also increased. Growth in organic fruit area came mainly from stone fruits. Organic stone fruits orchard area grew by 48 percent and production by 129 percent. Tree nuts (walnuts, almonds, hazelnuts and chestnuts) area grew by 20 percent in 2016, and fully-converted area doubled. 2016 organic nut production was 68 percent more than in 2015.

Aromatic, medicinal and culinary crops (herbs): Bulgaria is a leading EU producer of aromatic, medicinal, and culinary crops (both conventional and organic). 2016 organic areas for these increased by 58 percent. Industry sources indicate that expansion of lavender areas (organic and conventional) continued in 2017 and will grow further in 2018. Early, unofficial 2017 data shows a 47-percent increase in areas and 50 percent in production to 29,340 MT. In mid-January 2018, there was a deficit of lavender planting material and its price increased sharply.

Due to the growing importance of these crops and essential oils processing, MinAg produced its first public data regarding this sector in late 2016. The data show that Bulgaria produced 1,468 kg of rose oil, and 372 MT of other rose products (rose water and other) from 5,500 MT of roses in 2015. Organic production included 283 kg of rose oil and 170 MT of rose water. Organic roses and lavender were processed by 14 establishments (out of total 52 Bulgarian distilleries).

Lavender production expanded sharply in recent years (see Attaché Report BU1653). MinAg data showed production of 194 MT of lavender oil, water and dried lavender from 14,673 MT raw materials in 2015 (oil production was 186 MT). Organic lavender production was 38 MT of oil and 3.9 MT of water. The distilleries also produced 33 MT of essential oils from other herbs and aromatic crops.

Rose products are exported mainly to non-EU third countries (20 percent), followed by the EU market (16 percent), and the local market (16 percent). Lavender products are usually exported to the EU (38 percent), followed by the local market (35 percent) and small quantities to non-EU third-country markets (10 percent) (MinAg 2015 data). According to MinAg, Bulgaria became the EU's top exporter of lavender oil in 2017.

Organic Animal Production

The number of organically raised animals has grown, although this sector continues to lag behind organic crop growing. In 2016, the number of dairy cows grew by 64 percent over 2015, sheep by 43 percent, goats by 53 percent, poultry by 29 percent, and beehives by 32 percent.

Although apiculture is rapidly expanding and organic honey is a major Bulgarian export, 2016 organic honey production declined, despite the growth in certified beehives increasing from 25 to 31 percent year-on-year (see Attaché Report BU1653). Organic milk output in 2016 grew by 18 percent. As noted above, organic processing remains underdeveloped. Major processed products include yogurt, cheese, honey, bakery products, wine, herbs, and tea.

Certification and Control

In 2016, organic certification was conducted by 16 certification bodies, five of which were Bulgarian, and the rest from EU countries. In 2014, 14 certification bodies were eligible to certify products as organic (MinAg Annual Report 2017).

Market Trends

Economic growth and purchasing power improved in 2016/17 and encouraged some people to reconsider their dietary habits. This trend led to an increase in organic food purchases (see Attaché Report BU1653). Current market trends in Bulgaria are:

- Higher consumer incomes and evolving lifestyle trends in 2016/17 attracted a more diversified group of consumers in urban areas, and increasingly in smaller towns. This trend continues to expand and attracts customers looking for 'clean/natural', 'free from XYZ', and 'environmentally friendly' characteristics.
- As organic products penetrate into more categories, retailers allocate more shelf space for these products. The number of specialty retailers and farmers markets increased. The assortment and diversity of organic products on sale has grown.
- The share of organic packaged foods sales via modern grocery retailers accounted for 62 percent, versus 38 percent in traditional supermarkets. All retail chains have increased their inventory of specialty and organic foods. Advertising and marketing campaigns continue to shape consumer perceptions and emphasize the category and not brands.
- Public awareness and confidence in organic certification and control oversight improved. Conversely, the use of other alternative labels such as "natural', 'clean', 'green', 'eco', 'home-made', etc. tend to confuse the consumers. New EU labeling requirements are expected to regulate labeling claims. This may prove to be positive for organic sales.
- Substantially higher prices of organic products limit sales.
- Increasingly higher quality of nonorganic alternatives which project healthy/wellness and/or 'local', 'natural', etc. attract customers with more affordable prices. In the wider category of health and wellness products, the share of 'naturally healthy' products accounted for 48 percent, followed by functional foods, 29 percent, 'better for you' products with 17 percent, and organic products at only three percent (2016 data).

Market Size and Structure

Sales of organic packaged foods were estimated in 2016 at 31 million leva ($19 million), seven percent more than in 2015 (source: Euromonitor). The estimate for sales in 2017 is to top 33 million leva ($21 million) or six percent more than in 2016, and to reach 35 million leva ($22 million leva) in 2018. The forecast for 2021 is for 40 million leva ($25 million). In addition, sales on organic products via farm markets (mainly fresh produce) and social platforms were estimated at 20 million leva ($12 million) or total sales of about $31 million in 2016 (source: local trade sources). The estimates about the size of the organic food market are at around one percent of the total local-food market.

Organic baby food sales continue to account for the largest share in organic sales, 36 percent in 2016, due to established and trusted companies in this segment and stable prices. Dairy products followed with an18-percent share, with organic reduced-fat milk recording 17 percent higher sales in 2016 over

2015. The best performing organic products were chilled, processed meat and seafood, which saw sales grow by 22 percent. Organic beverages are a new and emerging niche (see Attaché Report BU1653).

The market remains fragmented and dominated by multinational companies. The top five players account for 51 percent value share of organic packaged products sales. Most local companies have shares of about one percent, with the exception of a local leader which accounts for 17 percent of the market. This is related to the inability of local companies to consistently supply quantities and qualities needed to allow for branding and sustainable sales. In early 2018, a local company (Ekoprodukti.bg) established the first logistical base/warehouse/wholesale site for supply of organic products, both domestic and imported, for retailers and the food service sector. The goal was to streamline delivery of consistent quantities of organic products for retailers.

Trade

Bulgarian exports of organic roses, lavender, and essential oils are usually destined for the EU. Total exports of essential oils (conventional and organic) (HS#3301) in 2016 reached $66 and in 2017 (January-October) $88 million or 60 percent increase over the same period in 2016. The main destinations in 2017 were France (27 percent share) and the United States (37 percent share), followed by Japan and Turkey. Exports of rose oil in 2016 (HS#330129) were reported at $60 million and at $77 million in 2017 (first ten months), to traditional markets France and the United States. Honey (conventional and organic) exports in 2016 were reported at 9,000 MT/$32 million and 10,516 MT/$37 million in 2017 (first ten months) exported to Germany, Greece, Poland, and Belgium.

Imported organic, high-value consumer products dominate 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/.