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Wine Annual

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Wine

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Report Highlights:

Following an unfavorable 2014 crop year, in 2015 the wine industry had a highly successful year with an abundant grape harvest and double digit growth in wine production. Consumption rebounded and wine imports saw a record growth of about 80%. The biggest challenge for the industry was a shift in export strategy towards more demanding foreign markets. Wine exports declined by 7% and the relative share of exports to Russia was sharply reduced to be below 15% of total exports.

The forecast for 2016 is for another good year due to the favorable weather to date, especially in the summer, with warm temperatures and sufficient rainfall in production regions. The grape crop is currently estimated to exceed 200,000 MT, below the exceptional crop of 2015 but with good quality characteristics. The projection is for the quantity used for wine making at commercial wineries to increase at the expense of home-made wine. Imports are estimated to maintain growth with the first five months of the year already 19% higher than in 2015. Exports are likely to stagnate due to favorable local demand and export marketing challenges. As of May, exports declined by 24%.

Disclaimer: Information in this report is collected from publicly available sources such as specialized and daily printed and electronic Bulgarian media, published surveys of consulting companies, interviews with trade and industry, FAS/Sofia interviews with trade and trade associations, and official statistics.

General Information:
PRODUCTION

In 2015 Bulgaria enjoyed an exceptionally good grape crop due to favorable weather and higher yields despite a slight reduction in harvested area. The quality of the crop was also reported as very good. The prospects for 2016 are good but the crop is not likely to be as large as in 2015. Due to a rainy spring, farmers had higher costs having more expenses for spraying against pests and diseases. A sudden drop in temperatures led to partial freezing in some locations, mainly for white varieties. Expected farm-gate price is flat as in 2015 and farmers anticipate lower margins. Harvest is likely to start about 10 days earlier in September.

Vineyard area

In 2015 vineyard area decreased by 3.6% while the size of abandoned vineyards increased compared to 2014 (12,086 HA vs. 10,298 HA). As a result, the total area under vineyards stagnated (- 0.2%) to 62,791 HA.

Harvested area was 76% of planted vineyards (60% in 2014) and 21% higher than in 2014. By region, the highest percentage of harvested area was in the Southwestern region with 90%, followed by Southeastern region with 79%.

Young, not yet yielding vineyards were at 1,500 HA, and 477 HA were the newly planted vineyards. Wineries have continued to expand with new plantings and by the replacement of older vineyards with new ones. White varieties enjoy higher demand and prices, and new plantings are mainly targeting such varieties.

In 2015 the concentration of vineyards continued to be highest in the Southeast and Southcentral regions, 36% and 34% shares respectively, or 70% together (66% in 2014).

Despite the recent planting of more white varieties, red varieties still dominated with 62% (64% in 2014) of all harvested area versus 32% (31% in 2014) of white varieties (6% of harvested area was under table grapes). (Table 1).

Table 1. Industry Development 2015 and 2014

Vine Industry Development 2015 and 2014		
	2015	2014
<i>Total Vineyard Area on Farms</i>	50,705	52,587
- Protected Designation Origin (PDO), HA	15,355	15,285
-Protected Geographic Indication (PGI), HA	21,432	21,449
-Other, HA	23,201	22,968
Total Harvested Vineyards, HA, including:	38,712	31,892

-Table Grape Vineyards, HA	2,254	1,610
-Vine Vineyards, HA	36,458	30,282
--Of which: White Varieties, HA	12,421	9,938
Red Varieties, HA	24,037	20,344
<i>Grape Production, Total, MT</i>	<i>261,820</i>	<i>132,731</i>
• Vine grapes, MT	244,357	124,216
• Purchased for commercial wine making	195,860	103,521
• Used for home winemaking	42,176	10,808
• Table Grapes, MT	16,320	7,079
• From Standing Vines, MT	1,143	1,436

Source: MinAg Statistical Bulletins,#309/May 2016

Grape Yields, Production and Use

Yields increased considerably, along with quality, and were at 6.7 MT/HA or 63% higher than in 2014 for vine grapes and 7.24 MT/HA or 65% higher than in 2014 for table grapes. As a result, total grape production doubled (+97%). The quality of the harvest was reported to be much above average.

Table 2. Grape Production and Utilization, 2013 – 2015

	2013		2014		2015	
	MT	Percent	MT	Percent	MT	Percent
Total grapes	325,596	100	132,731	100	261,820	100
Grapes for wine manufacturing	304,090	93.3	123,912	93.3	242,936	92.7
Grapes for direct consumption	21,506	6.6	8,819	6.6	18,884	7.2
Grapes processed at commercial wineries*	249,637	82.2	103,521	83.5	195,860	80.6
Grapes processed for homemade wine*	34,272	11.2	10,808	8.7	42,176	17.4
Other products*	20,181	6.6	9,583	7.7	4,900	2.0

*as a share of grapes for wine manufacturing

Source: MinAg Statistical Bulletins,#309/May 2016

Of total grapes, 93% was used for wine-making, the same share as in the last five years, although this represented a 96% growth in absolute volume due to abundant supply. However, a lower percentage of grapes was processed into wines at commercial wineries, 81%, compared to 84% in 2014, since many farmers preferred to restore their home-made wine making practice, which experienced a sharp decline during the previous season. For this reason, a much higher volume of grapes were held back for home-

made wine making (+390%), with grapes used for home-made wine accounting for 17% of all grapes used for wine making, compared to 9% in 2014 (Table 2).

As a result, home-made wine production achieved a record 20 million liters, four times more than in 2014. Due to depleted wine stocks in 2014 and the good quality and supply of 2015 crop, commercial wineries made larger purchases and produced 131 million liters of wine or 75% more than in 2014 (Table 3). Wineries emphasized production of wine without a protected origin (PDO) or geographic indication (PGI). This category of wines doubled its output (+91%) and accounted for 60% of all wines, followed by PDO wines (+60%) and PGI wines (+56%). Bulgaria has 54 PGI wines. As of 2016, Bulgaria had 262 registered wine makers and available capacity for production of 200 million liters which has been upgraded in recent years.

The forecast for 2016 is for higher commercial wine production and lower production of home-made wine, with a slight decrease in total wine output due to the expected small reduction in 2016 grape crop.

Table 3. Bulgarian Wine Production, 2014-2015, thousand liters

	2014 (000)	2015 (000)	Percent Change 2015/2014
With protected designation of origin (PDO)	1,053	1,686	+60%
With protected geographic indication (PGI)	32,223	50,372	+56%
Other	41,419	78,957	+91%
Commercial Total	74,695	131,015	+75%
Grapes must	8,615	5,666	-35%
Homemade	4,808	20,075	+417%
Total	79,503	151,090	+90%

Source: MinAg Statistical Bulletins,#309/May 2016

CONSUMPTION AND DEMAND

Wine consumption in 2015 was estimated to rebound due to better supply along with improved commercial wine sales. Official wine consumption data confirms these trends, showing a stable gradual increase in wine purchases by households from 4.4 liters/capita in 2012 to 5.7 liters/capita in 2015, along with growth in the average purchase price from 3.27 leva (U.S. \$1.90) in 2012 to 4.03 leva (U.S. \$2.30) in 2015. Industry data shows annual consumption at 100-120 million liters (worth about U.S. \$243 million in 2015) with the prospects for growth both in volume and value in the next five years. The share of wine sales in total alcohol sales increased from 13% to 14% and is expected to reach 15% in 2016. By volume, wine accounted for 8% of alcohol drink sales.

Commercial sales slowly but sustainably increased their market share at the expense of home-made wines. In 2015 these sales were estimated at 52.4 million liters or 2.3% growth year-on-year; preliminary data for 2016 is for 53.6 million liters or another 2.2% increase and the forecast for 2017 is

for 55 million liters. In value, the market is estimated to reach U.S. \$250 million in 2016 and U.S. \$258 million in 2017 (Source: Euromonitor and industry data). The main drivers for higher consumption are the improving economy, urbanization, and an increased preference for lower alcohol content drinks. Traders opine that wine attracts new customers, especially younger people, and existing ones consume more. New product launches, increased wine promotional events and more active social media marketing have attracted more attention and boosted sales in 2015 and 2016.

Imported wines sustained and increased market share, estimated at 17% of commercial wine sales in 2015 compared to 10% in 2014 and 13% in 2013 (Table 4). Imported wines are priced at mid to higher levels and appeal to higher income and younger urban consumers. Importers expanded their portfolio with more white wines and included more affordable but good quality wines which made them especially attractive for average consumers.

Market studies show that local wine makers, especially of higher-end wines, target mainly the Bulgarian consumer due to better prices. For instance, average prices on the local market in 2015 were about 10.0 leva/bottle (U.S. \$5.70), compared to an average export price of U.S.\$1.04/liter in 2015. Reportedly, 94% of medium to higher-end local wines are consumed by the local market.

Table 4. Wine Supply and Demand, 2012-2015, thousand liters

Wine Sector Development, 2012-2016					
	2012 (000 liters)	2013 (000 liters)	2014 (000 liters)	2015 (000 liters)	2016 F (000 liters)
Wine production, total	137,650	188,341	79,503	151,090	145,000
- Commercial wine	127,171	172,447	74,695	131,015	135,000
- Home-made wine	10,479	15,894	4,808	20,075	10,000
<i>Imports</i>	<i>7,064</i>	<i>6,541</i>	<i>4,947</i>	<i>8,879</i>	<i>9,000</i>
-Intra EU	5,526	5,884	4,131	7,887	7,500
-Extra EU	1,538	657	816	992	1,500
Total supply	144,714	194,882	84,450	159,969	154,000
<i>Exports</i>	<i>55,964</i>	<i>50,901</i>	<i>43,305</i>	<i>39,933**</i>	<i>40,000</i>
-Intra EU	36,976	35,801	29,351	32,655	31,000
-Extra EU	18,988	15,100	13,954	7,278	9,000
Local Market/Consumption (and stocks)	88,750	143,981	41,145 *	1,036	114,000
-Estimated Consumption	89,900	90,500	105,000*	110,000	115,000
-Incl. Commercial wine sales	48,855	49,823	51,200	52,400	53,600
Notes:					
*According to official and industry sources, local wine consumption in 2014 was 110-120,000 MT which indicates that a significant quantity of old stocks were consumed on the market. Data about stocks is not typically published, the last available data is about stocks as of July 2012 at 72.7 million liters. FAS/Sofia estimates that about 65-70 million liters of old stocks were consumed in 2014.					
** Export and import data is based on World Trade Atlas/ Eurostat. Per Bulgarian MinAg, exports in					

2015 were at 54,365 MT.

Source: MinAg, WTA data, Euromonitor International; 2016 F- Forecast by FAS/Sofia

Retail (off-trade) wine trade grew and accounted for the lion's share of volume sales at 80% since the still price sensitive consumers avoid wine purchases in the HRI sector due to high markups (2015). In value this trade accounted for 58% of sales.

The average price of wine increased by 1%-2% due to stable demand and the improving quality of the product on the market. The demand shifted consumption towards higher priced products and the sales of lowest-end wines (below U.S. \$1.50) were reduced from 33% to 30%. The medium price category (U.S. \$2.90-4.60) attracted more sales and accounted for 28% of sales of red wine, 21% of white wine and 50% of rose wine. The sales in the higher price category (U.S. \$4.60-6.90) also expanded. Bag-in-box sales accounted for 35% of volume sales and expanded but glass bottles still remained the most preferred packaging.

Among red wines, Cabernet Sauvignon and Merlot still account for the major share in volume sales (37%-38%), however, their popularity has weakened due to the improving image and sales of Syrah (4%) and Pinot Noir (3%). In the white wine category, the leader was Chardonnay (30%), however, Sauvignon Blanc expanded and accounted for 13% of volume sales. Pinot Grigio (4%) and Riesling (2%) are expanding sales too. White wine continued to be the most significant in terms of dynamic development, as its share in total sales (volume) increased sharply to 41% of all wine sales, driven by consumer preferences for "lighter, healthier" products. Rose wine was the fastest growing category in 2015/2016 with growth in sales estimated above 5%. Local wine makers and importers increased the diversity of rose wines and offered better quality product. In 2016 the first specialized promotional event for rose wine was held in the country.

TRADE

Table 5. Wine Trade, 2014 – 2016 (January-May)

HS#2204 Wine	2014	2015	January- May 2015	January- May 2016	Difference in Percentage
<i>Wine Imports</i>					
• In 000 Liters	4,948	8,879	2,784	3,325	+19.48%
• In U.S. \$ (million)	17.0	20.5	6.8	6.6	- 2.79%
<i>Wine Exports</i>					
• In 000 Liters	43,305	39,933	16,439	12,449	-24.27%
• In U.S. \$ (million)	55.0	41.7	17.0	14.1	-16.97%

Source: WTA/Eurostat

Exports

Bulgaria remains a net wine exporter although in recent years exports have been declining in absolute and relative terms. The trend was preserved in 2015 with a decline in exports of 7.8% in exported volume and 24% in value due to a sharp reduction in the average export price from U.S. \$1.27/liter in 2014 to U.S.\$1.04/liter in 2015 (-18%). Despite variations, export prices to the three major markets were lower than for the previous year: to Poland at U.S. \$0.69/liter (U.S. \$0.91/liter in 2014); to Russia at U.S. \$1.09/liter (U.S. \$1.25/liter in 2014) and to Romania at U.S. \$0.70/liter (U.S. \$1.46/liter in 2014).

Poland was the major export market for a second year overpassing Russia. It had 30% share in value and 46% share in volume of total exports. Exported quantities to Poland grew by 16% but value exports declined by 12% as a result of 24% lower export prices. It is expected that Poland will continue to be the major export market in 2016.

Exports to Russia which began to decline in 2013 have continued this tendency in 2014 and 2015. In 2015 exports plunged with 61% reduction in value and 55% drop in volume. Unlike in 2013 and 2014 when the relative share of this trade remained high above 25%, in 2015 the share of exports to Russia significantly shrunk under 15%, as follows:

Table 6. Bulgarian Wine Exports to Russia Development 2013-2015

Bulgarian Wine Exports to Russia Development 2013-2015			
	2013	2014	2015
Relative share of wine exports to Russia in value, %	26.9	27.4	14.1
Relative share of wine exports to Russia in volume, %	26.7	27.9	13.6

Source: WTA

The third major market was Romania, mainly for lower-end wines. Romania ranked third with 11% of exports in volume but only 7.4% in value. In 2015 Bulgaria increased its wine exports to this market by 69%. Sweden and the United Kingdom were the other two major markets accounting for 8.6% and 7.8% of exports by value. Germany was also a promising market with a growth in exports of 39%. Following the boom in exports to China in 2014 (U.S. \$1.6 million) and Japan (U.S. \$1.1 million), in 2015 exports to these two markets dropped by 33% and 7%, respectively. Exports to the United States also decreased by 27% to U.S. \$0.7 million.

In 2016 to date (Table 5), exports have continued to slide down. In the January-May period imports declined by 24% in volume to 12.4 million liters and dropped in value by 17% (U.S. \$14.1 million). Wineries are trying to shift exports from the East to the West with a focus on Western Europe and the United States as well as select Asian markets. The newly established Association of Wine Exporters (AWE) announced the new priority markets: the United States, followed by China and Japan as well as Benelux, the UK, and the Scandinavian countries. The AWE defined the Russian market as a low cost market while the group unites higher-end wines producers. The AWE uses an EU-funded promotional program for the U.S. market (a 3 year program which was launched in March 2016). The AWE goal is to increase wine exports by 15% for the next three years. Besides marketing challenges, exports are hampered by the fragmentation and smaller size of Bulgarian wine makers which cannot supply bigger volumes.

In early May 2016 Bulgaria hosted the 23th edition of the prestigious Concours Mondial de Bruxelles. About 260 local wines of 70 wine makers took part in the competition. A total of 55 countries presented 8,500 wines. Bulgarian wines were awarded 109 medals. The traditional wine fair "Vinaria" attracted more interest in 2016 where the number of foreign exhibitors increased by 44% and expanded the exhibition area by 52%. In 2017 Bulgaria will host 40th World Vine and Wine Congress and 15th General Assembly of OIV.

Imports

Imports had steady growth in value since 2009 despite fluctuations in imported quantities. In 2015 imports rebounded with 20.5% growth in value to a record high of U.S. \$20 million while imported quantities skyrocketed by 79% to 8.9 million liters. The average import price declined by 33% to reach U.S. \$2.31/liter (Table 8).

Italian, French and German wines led imports in 2015. Italian and German exports to Bulgaria increased by 34% and 8%, respectively while imports of French wines dropped by 11% (value). Spanish wines had the highest growth of 100% and ranked fifth in total imports. Romania for the first time exported wine to Bulgaria, mainly in bulk, for U.S. \$1.8 million (2.0 million liters). By volume, Italian wines were leaders with 2.2 million liters and 22% annual growth. Spain followed second with 1.5 million liters and substantial year-on-year increase of 245%.

In 2016 (January- May) imports maintained growth by 19% in volume to 3.3 million liters but dropped in value by 3% (U.S. \$6.6 million).

POLICY

According to new EU rules, since January 1, 2016, Bulgaria and 13 other EU member states apply the new system of planting rights (only for vine varieties, not for table grapes). The new vineyard plantings are limited to existing rights from the national reserve and if producers do not have such rights, no new vineyards can be planted using EU funds. The MinAg encouraged producers to buy such rights from the national reserve in 2015. From 2016 onward, new vineyard plantings cannot exceed 1% of actually planted area. For Bulgaria, the limit is set at 80,000 HA for 2016-2030.

In 2015 the authorities adopted the Viticulture Program under EU CAP 2014-2018 with a budget of U.S. \$154 million (U.S. \$30 million/year). In 2016 44 projects were approved for subsidized investment for 20.0 million leva (U.S. \$11.4 million), as the industry has strong interest in replacing old vine stocks with new plantings. For the 2016-2018 period about 50 million leva (U.S. \$29 million) from the program will be used to fund 132 such projects, of which 44 are to be implemented in 2016, 50 in 2017, and 34 in 2018.

Table 7. Wine Exports, 2013-2015

Bulgaria Export Statistics
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An

Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi						
Calendar Year: 2013 - 2015						
Partner Country	2013		2014		2015	
	U.S.\$ 000	Liters 000	U.S.\$ 000	Liters 000	U.S.\$ 000	Liters 000
<i>World</i>	61,941	50,901	55,020	43,304	41,730	39,933
Poland	14,704	12,701	14,468	15,880	12,700	18,343
Russia	16,674	13,605	15,102	12,112	5,904	5,436
Sweden	3,659	1,927	3,725	2,046	3,601	2,403
United Kingdom	3,427	2,132	3,832	2,446	3,259	2,240
Romania	4,390	4,612	1,828	2,752	3,090	4,402
Czech Republic	4,292	4,089	2,770	1,796	1,743	1,386
Belgium	1,189	599	1,409	623	1,381	590
Germany	1,169	539	954	462	1,327	1,001
China	982	217	1,645	241	1,108	355
Japan	924	296	1,108	351	1,034	316
France	656	1,016	1,260	1,220	835	519
United States	593	197	968	332	709	263

Source: WTA Export Statistics

Table 8. Wine Imports, 2013-2015

Bulgaria Import Statistics						
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi						
Calendar Year: 2013 - 2015						
Partner Country	2013		2014		2015	
	U.S.\$ 000	Liters 000	U.S.\$ 000	Liters 000	U.S.\$ 000	Liters 000
<i>World</i>	17,791	6,540	17,010	4,947	20,507	8,879
Italy	5,014	2,564	3,648	1,765	4,894	2,162
France	5,495	,816	5,130	679	4,555	732
Germany	1,571	550	1,933	700	2,086	790
Romania	361	6	0	0	1,794	2,095
Spain	539	212	722	441	1,446	1,523
New Zealand	673	107	1367	256	1,317	275
Chile	1,360	326	1427	362	1,244	340
United Kingdom	604	127	552	97	9,076	69
Netherlands	529	57	583	67	537	737
Greece	255	94	343	171	340	133

Argentina	72	21	193	49	293	82
Czech Republic	189	173	160	51	273	129

Source: WTA Import Statistics

End of Report