Bulgarian Food Processing Equipment Market

Summary

A. Market Highlights and Best Prospects

1. Market Profile

One of the historically traditional sectors of the Bulgarian economy is the food processing sector. This report provides description of the food processing equipment segment of it through brief overviews of the most dynamic food processing subsectors namely: brewery, dairy, meat processing, sugar and oil refinery, fruits and vegetables canning, beverage, drying and dehydrating, bakery and confectionery, wine production and honey processing.
The importance of this sector is determined by its share in the total industrial output, which throughout 1996 and 2004 has been within the range of 19 to 20 per cent.

Shortly after 1989 which is the beginning of the transition period in Bulgaria, statistical data shows decline in meat processing – more than 3 times, in wine production – more than 2 times, in vegetables canning – more than 4 times, in fruits canning – more than 5 times, in confectionery – more than 3 times etc. This trend affected the investments and imports of food processing equipment as well.

The reasons for this phenomenon are numerous: the state budget did not provide government subsidies any more, consumer demand, philosophies, requirements and orientation of the old traditional markets changed, financial systems in the former Comecon countries collapsed, food processing technologies and equipment proved to be rather outdated, majority of the managers were not prepared to act per free market economy rules and principles and the newly structured SMEs quickly gained strength and became rather competitive. Other parallel processes such as privatization and opening the markets to competitive imports created additional hurdles and challenges to the negative sector development.

After 1997 some subsectors such as the brewery, wine production, beverage production including mineral water bottling and to a certain extend oil refinery, confectionery, bakery, meat processing, fruits and vegetables processing and cold chain subsectors are indicating positive development trends. These dynamics determine increase in imports and investment in corresponding equipment for each individual subsector.

Despite the negative trends in production and export of processed foods, the major factors which may positively affect the whole food processing sector and the food processing equipment segment in particular could be determined in the following groups:

- Ongoing process of the sector technological infrastructure restructuring– establishment of capacities for production of proteins, enzymes, vitamins and spices.
- Ongoing innovation processes targeting: production of new type of food products, introduction of new high-tech equipment, techniques and technologies, improvement of quality, introduction of the EU standards for quality of foods and drinks and their packaging and introduction of environmentally friendly production processes and packaging.

- Increase of investments in the food processing and related bottling and new-packages activities
- Introduction of the EU requirements related to Hazard Analysis and Critical Control Points (HACCP) which basically means good production and hygienic practices for food and drinks safety

2. Statistical Data

The statistical data provided in this report is just to show the market size of the best sales prospects per HS tariff codes and it covers only 2003.

HS tariff code #	Import in USD	Export in USD	Import from USA in USD
842220000	51.500	284.000	
842240000	7.057.500	1.824.200	220.200
842240000	13.175.900	1.692.4	4.900
843420000	355.300	1.066.500	--
8435	486.800	744.900	--
843810100	2.110.800	995.000	--
843810900	950.000	--	24.400
843820000	3.082.400	7.000	--
843830000	--	237.800	--
843840000	3.193.100	--	--
843850000	7.202.100	294.500	--
843860000	1.591.100	1.395.000	--
843880100	130.800	3.700	--
843880910	10.500	324.700	0.4

Major import markets are: Germany, Italy, Belgium, the Netherlands, Austria, Switzerland, UK
Major export markets are: former Eastern block countries, Greece, Israel, Yugoslavia

3. Best Sales Prospects

Over the long term between 1989 and 2004 when Bulgarian economy started rapid deregulation, decentralization and building up the market driven economy base, the food processing market and the food processing equipment market in particular indicated slow dynamics and growth in the following subsectors:

A. Brewery
B. Dairy
C. Meat and poultry processing
D. Beverage, juice and mineral water
E. Bakery
F. Sugar and pastry
G. Canned, frozen and dehydrated fruits and vegetables
H. Honey processing
I. Wine production

The dynamics and growth in the food processing market though is not stable throughout the years. Besides it is strongly influenced by the EU pre-accession process and by the European Union donor programs assigned for the development of the agriculture and the food processing industry in Bulgaria.

Above subsectors of the food processing market determine the best sales prospects for food processing, packaging, bottling and laboratory equipment procurements.

B. Competitive Analysis

Pricing, reputation, quality and after-sales services are main competitive factors in securing contracts. Pricing is the primary competitive factor. Availability of financial sources and their origin is another key competitive factor. US firms should follow up with end-users with the assistance of their local representatives, agents and distributors, determine their future needs and status of development and upgrading. US firms should be prepared to participate in government tenders and/or government procurement bids. US firms should be aware of the EU SAPARD program competitive subsidies too.

1. Domestic Production

Local competition is insignificant with approximately 23 per cent of the total machinery and equipment market. Such equipment manufactured in Bulgaria focuses on packaging, filling and closing equipment, milk processing aggregates, some bakery equipment, meat processing, canning and bottling equipment. Approximately 70% of the locally manufactured foodprocessing equipment is exported.
None of the Bulgarian companies are presently serious competitors to U.S. firms although some might be considered good partnership prospects.

2. Third Country Imports

Despite the major role that pricing plays in shaping competition on the Bulgarian food processing machinery and equipment market, competition among foreign suppliers is also strongly influenced by the availability of donor-assistance EU and PHARE programs and financial packages such as the SAPARD program. And secondly, the competition is affected by the customs preferences offered to EU manufacturers compared to the third country equipment manufacturers and exporters.

3. U.S. Market Position and Share

The U.S. share of Bulgaria's imports of foodprocessing machines and equipment varies between 5 and 8 per cent of the total foodprocessing machinery market. U.S. firms are expected to increase and diversify in terms of new products the imports over the next 2-5 years by approximately 10 per cent, retaining the market share between 15 and 18 per cent. U.S. exports have primarily been filling, bottling, packaging and labeling equipment. Historically Bulgarian foodprocessors are familiar with US foodprocessing equipment brand names of cutting, slicing, dehydrating, filling and pasteurizing equipment.

It is expected that U.S. firms exporters of filling, packaging, de-bone, ungutting, heads-and-tail-off equipment as well as cold-chain and cold-storage equipment will increase export business contacts and sales on the Bulgarian market in the next 1-3 years.

C. End-user Analysis

1. Brewery market segment

The most dynamic foodprocessing subsector was established in Bulgaria in 1881. Between 1995 through 2000 the total amount of investments in the brewery industry was $100 million. The privatization process in this sector took 4 years – 1994 through 1998. All 13 breweries in Bulgaria were successfully privatized and all of them still operate very successfully. Majority of these breweries are either members of one and the same consortium or have the same owner. Very few of them are independent – example Bulborg (Plovdiv brewery) or Veliko Tarnovo brewery.

Market shares in this industry are split among 7 large companies some of them with major participation of the largest Dutch, German and Greek breweries and beverage producers, namely Haineken, Interbrew, Leventis Group (the Greek branch of Coca Cola) and Carlsberg. At present only the three largest European brewery groups own 65% of the production capacity and the brewery market in Bulgaria.
The market shares are split as follows:

- Brewinvest, with 27% market share, producing two brand names of beer namely Zagorka, Amstel, Gold, Stolichno and Ariana
- Interbrew, with 23% market share, producing 4 brand names of beer namely Kamenitza, Astika, Plevensko Pivo and Bourgasko Pivo
- Bulbrew, with market share 19% market share, producing 2 brand names of beer namely Ledenika Varnensko Pivo and Ledenika
- Carlsberg, with 18% market share, producing Shoumensko Pivo and Pirinsko Pivo
- Boljarka, with 9% market share, producing Boljarka brand name beer
- Lomsko Pivo, with 3% market share, producing Lomsko Pivo brand name and
- Sofia brewery, with 1% market share, producing Shopsko, Sofiisko and Lyulin

Short and medium term investments in terms of equipment in this subsector are expected to be in PET type of bottling machines, can filling machines, mashing equipment, in laboratory equipment for introduction of the latest ISO 9001:2000 standards and for the GMP introduction.

2. Dairy market segment

There are 495 operating dairy factories in Bulgaria of which 450 newly established ones.
In 2003 the domestic production of milk reached 1,700 million tons while in 2002 it was 1,589 million tons whereby approx 80% of it is cows' milk and the rest is sheep, goats and buffalo milk.
The dairy food sector products manufactured in Bulgaria are sterilized UHT milk, pasteurized milk, powdered and concentrated milk, cream, powdered milk products, cottage cheese, butter, milk oils, milk drinks, yogurt, milk deserts, ice cream, creams on vegetable and milk base, yellow cheese, yellow cheese, cream cheese, rolls and curds.
The tradition of manufacturing white i.e. Feta cheese (produced through ultra-filtration), yellow cheese – Kashkaval, yogurt and other dairy products is as old as the country itself. So are the dairy products from sheep, goats and buffalos

The largest foreign investment in the dairy sector has been made by the French Danone Group, Land O'Lakes, Kraft Foods, the Greek company Delta, the Greek risk management and investment fund Global Finance together with EBRD. United Milk Company (UMC), a joint Bulgarian/Greek investment acquired the former government owned dairy network facilities

Serdika in Plovdiv, Stara Zagora, Bourgas and Shoumen. It occupies 30% of the pasteurized milk market share and 20% of the fresh milk market share. UMC performs 30% of the export of white cheese and sheep yellow cheese to other than EU countries.

As of 2003, 16 Bulgarian milk producers are licensed for exports to the EU and another 3 local dairies will be added to that list. This translates into export of 14,000 tons of dairy products i.e. double the quantity exported in 1999. For 2004 the estimates are 40-50% increase in exports of dairy products. Traditional export markets for the Bulgarian diary sector are Greece, Italy, Russia and Germany. The exports of Bulgarian dairy products mark an increase throughout the years: 1999 – 6856 tones, 2000 – 7826 tones, 2001 – 9395 tones, 2002 – 11501 tones and 2003 – 14000 tones.

Major investments in the dairy sector are expected in cooling containers, milking parlors, stations for collection and storage of non-pasteurized (raw) milk, new packaging equipment and sanitation equipment.

3. Meat processing

One typical characteristics of the meat-processing subsector in Bulgaria is that it is one of the most dynamic ones regardless of the decline in the domestic consumption. This subsector is among the first ones in the food processing industry which is trying to find its market niche on the EU and the Near East markets. It absorbs a lot of investments in new technologies, new equipment and packaging which lead to reduction of the cost and improvement of the final product. The largest meat processing companies in Bulgaria are Mekom-Silistra, Tandem-B, Sofiz, Boni M and few others. They are the largest importers of meat processing equipment and short-term imports are estimated to be in slaughter houses, sausage production lines, implementation of the latest quality standards, HACCP and GMP-s.
The export of lamb, sheep and goats' meat and processed meat products for the entire 2002 and 2003 has increased by 10 to 14% annually. Major markets remain Greece, Italy, Austria, Germany, Near East countries, Russia and Ukraine.
As far as import of meat is concerned, as a result of the recent outbreaks of FMD and BSE in Europe, the U.S. meat producers remained as the only safe, competitive and reliable source of beef, edible beef offal and pork to Bulgaria.
As far as import of poultry is concerned the cumulative characteristics is that the equipment of all 10 poultry slaughtering houses is more than 13 years old and the sanitary requirements are far below the requirements. Estimated short-term investments in new poultry slaughter equipment and facilities is 7-8 million EUR. Such investment will provide for opportunity the Bulgarian poultry slaughter firms to apply for EU market export licenses and EU duty free export quota which is 7 thousand tons annually.

More details on the best prospects in the meat processing sector could be viewed from the Country Commercial Guide through the web site of the Department of Commerce – http://www.export.gov , http://www.BuyUSA.gov/bulgaria or through the web site of the U.S. Department of Agriculture www.usda.gov

4. Soft drinks, juice and mineral water

Soft drinks production in Bulgaria started back in 1880, while juice production and mineral water bottling have less than a 20 years of history. Leader in this subsector remain the so called group of the "Cola" drinks. In 2002 the cola drinks had a 34% market share, the fruit flavored carbonated soft drinks had 24% market share and the limonade only had 23% market share.

Due to the low purchasing power of the population, consumption of cola drinks has declined while consumption of the fruit drinks has increased. Large investors such as Coca Cola and Pepsi started production of fruit flavored carbonated soft drinks.
Domestic juice production slowly but steadily regains its market share. There are 8 Bulgarian juice producers which keep 93% of the market share. They compete successfully the foreign importers quality and price wise.
Bottled water market segment shows the most stable and upward trend. This category incorporates mineral water with and without gas. The consumption of bottled mineral water with and without gas has increased more than 5 times for the period between 1990 and 2002.
This is the most dynamic subsector almost entirely dependent on introduction of new outlook and packaging. The first standard looking glass jars and bottles are now being replaced by Tetrapack, Tetrabrick, PET bottles, cans etc. new packaging. Wholesale packaging, so called premixes becomes popular lately as well.
Largest investments in this subsector has been and will remain in production halls, bottling lines, PET bottles production lines, cooling and carbonating utilities, production of juice concentrate.

5. Bread and Bakery

After 1990 the bread and bakery market marks down considerable decentralization and increase of private enterprises. It is undergoing not only structural changes but significant changes in the quality of the final products, diversity in brands and assortment. Bulgarian bakeries are investing in new modern type of equipment and are expanding the sales of mass produced breads and pastries. Bakeries have recently began import of specialty flours from the U.S. either for special products (croissants and health foods) or for blending with domestic flour for better baking quality. Some bakeries are looking for bulk mixes as well.
As far as bakery equipment is concerned there is potential for importation of computerized automated bakeries following the international standard for bread production S88 and incorporation of the S88 standard with the S95 standard for Manufacturing Execution Automation System and further on with the Enterprise Resource Planning system.
Only 10 of the 350 flour mills in Bulgaria are technologically equipped to manufacture whole grain flour by one time milling process and only 3 of these 10 flour mills produce whole-grain flour. This is another market niche which is healthy food and EU integration driven.

6. Sugar and pastry

The sugar processing companies in Bulgaria are close to the sugar beet regions and to water resources. Ten years ago they could process both sugar beet (1,8 million tons annual sugar beet production until 1998 which drastically decreased up to 40,000 tons annual production in 2000) and unrefined sugar imported from third countries. In the 70-ies the sugar refinery production yield was 350,000 tons sugar of which 173,000 were based on domestic sugar beet. The subsector changed during the last decade indicating annual sugar production of approximately 240,000 tons of which only 4,000 tones are based on domestic sugar beet.
Major players in the subsector are the sugar refinery Devnya, privatized in 1997 by a Turkish company; the sugar refinery and confectionery Gorna Oryahovitza (management buyout in 1999); Rousse sugar refinery (privatized in 1996) and Kristal 91-Plovdiv (privatized in 1996). The sugar refineries are now processing mainly unrefined sugar imported from Brazil, Thailand and Germany.
Pastry subsector is developing very dynamically. It is presented by several successful green-field Bulgarian investment called Royal Group (consisting of Royal Cake, Royal Potatoes, Royal Foods, Royal Storage and Devin mineral water bottling) and other confectionary chains Luchano, Atlantic, Jimmy’s, Anelbo, Dunkin Donuts (franchisee), Chipita (Greek investment),

Delta (Greek investment), Nestle Sofia, Kraft Foods Bulgaria, Pain D'Or and many small pastry manufacturers.
Largest and regular investments are being and will be made in the pastry and confectionery subsectors in companies' brand names production lines.

7. Canned, dehydrated and frozen fruits and vegetables

The Bulgarian market of processed fruits and vegetables traditionally and historically has developed three main subsectors – canned and pastorized fruits and vegetables, dehydrated (lyophlization and cryobiology processed) and frozen fruits and vegetables. After 1990 all companies in this sector have been privatized. Per the Bulgarian Association of Fruits and Vegetables Producers, the market share of canned fruits and vegetables is 6-8% of the food-processing industry sector and it employs 9% of the labor force in the sector. At present there are 150 canning factories 65 of which produce 85% of the final product.
Dehydrated and frozen fruits and vegetable production will continue to develop and will build up a strong market niche for smaller capacity drying and freezing equipment within the range of 1 ton/hour with a possibility to be moved from field to field.

8. Honey processing

The Bulgarian Ministry of Agriculture and Forestry estimates increase of honey processing in Bulgaria in 2004 of 13.3% whereby the quantity should reach approximately 9,000 tons. This subsector registers an annual growth of approx 3% since 2000 and increase in export of approx 26%.
A large greenfield investment has been made in 2003 in honey processing and related laboratory equipment. The PHARE program subsidized 38 projects for approx 4,3 million BGN ($ 2.15 million).

9. Wine production

Wine production has long history and tradition in Bulgaria. Since 1980 it lost many of its old markets in the former eastern block countries due to poor and inconsistent quality, limited assortment, lagging behind the new requirements for packaging, poor marketing etc. In 2003 the wine production increased by 50 mln.litres compared to the yield in 2002 thus reaching 160 mln litres compared to 104 mln. In 2002. The export of wine in 2003 amounted to 73.7 litres compared to the export of 78 million in 2002.
With regard to the accession of Bulgaria to the European Union negotiations are being held between the government of Bulgaria and the EU for keeping the wine yards within the 1.4 million decars. After the accession Bulgaria will not be allowed to create new wine yards.
All these factors force the wine producing companies reconsider their overall technological strategy towards introduction of latest technologies in wine growing and wine production.
For the short period of time after EU started its cohesion program for support and development of the agricultural sector in Bulgaria, wine producers received subsidies of approx 76 million BGN ($38 million) from the SAPARD program and separately 150 million BGN ($75 million) government subsidies for new vintage areas.
Best prospects in this subsector exist in equipment and technologies for achievement of consistency and improvement of the quality, establishment of new unique series, diversification of packaging and introduction of new marketing approaches.

D. Market Access

As of 2001 the growth of the agricultural sector in general and the food processing machinery and equipment market in particular is attributed exclusively to the Agreement which the Bulgarian Ministry of Agriculture and Forestry signed up an with the EU for agricultural sector support under the SAPARD Program (Special Accession Program for Agriculture and Rural Development).
The National Program by itself has a budget of EURO 115.4 million annually for the period 2000-2006 and its four priorities are:

- Improvement of the agriculture, forestry and food processing manufacturing standards to comply to the EU requirements (70 per cent)
- Sustainable ag development and integration of the rural ag areas in support of the economy and the ag farmers societies (19 per cent)
- Farmers' training and HR (4 per cent) and
- Technical assistance (7 per cent)

1. Import Climate

There is no restriction on importing foodprocessing machines and equipment in Bulgaria. Local agents and distributors should only notify the Ministry of Economy and Ministry of Agriculture and Forestry of imported items and obtain customs clearance.

However, there are customs tariffs differentials between machinery and equipment imported from the EU and from the U.S. This fact represents a tariff barrier for U.S. originating machines and equipment. Further more per the Bulgaria/EU accession agreement majority of the EU originating machines and equipment are exempt of duty as of the end of 2002.

In cases of government procurement, under the Government Procurement Law, foreign companies are allowed to participate in tenders, but the performance must be carried out by a company registered to do business in Bulgaria under the Bulgarian Commercial Code or by a company which is representing the foreign entity and which is registered in Bulgaria under the Bulgarian Commercial Code. Registration can be as a branch, subsidiary or independent company.

Some international financing requirements such as the European Union's SAPARD program funds are tied up aid, which restricts U.S. companies from participating in a tender.

Harmonized legislation in Bulgaria
List of the harmonized with the EU Bulgarian trade regulations can be viewed at www.mi.government.bg/integration/eu
Some historical facts and figures as well as the horizontal legislation for the foodprocessing sector can be viewed at www.eic.rousse.bg/en/foodindustryBG.doc

2. Distribution/Business Practices

Distribution of foodprocessing equipment in Bulgaria is through an agent or distributor, preferably someone with extensive experience, good knowledge of the market, good contacts with producers, processors, branch associations, farmers and cooperatives, solid financial status and who has good reputation among decision-making authorities. There are no intermediate wholesalers for foodprocessing equipment in Bulgaria.

Experienced agents distributors may provide leasing schemes, or deferred payment schemes to their reliable customers.
Important marketing promotional instrument applied by experienced agents/distributors are on-site demonstrations with specific product which introduces new or high tech technology and equipment or demonstrations during the specialized trade fairs.
In some cases, distributors or branch associations organize group visits to largest worldwide exhibitions.
Overall, the U.S. suppliers of foodprocessing equipment and machines should consider the long-term potential of the market and not focus only on momentum sales volume.

3. Financing

The Ministry of Agriculture and Forestry allocate money for project financing either from its budget and/or from international financial programs such as the European Union accession program cohesion funds such as SAPARD. Money will be granted to individual projects by the paying Agency i.e. the Agriculture Fund. However, EU cohesion funds and programs are tied aid which limits the possibility of U.S. firms to participate in cases of open international tenders. U.S. firms should study carefully how they could participate in tenders which may be limited to European contractors or suppliers. Participation in such tenders through local representation offices, European branches or joint-ventures may provide the only possible access.
By the end of 2005 EU is expected to provide between EUR 10,000 and EUR 15,000 to a total of 80 meat processing companies for them to introduce a new system for management and control of the production process critical segments (HACCP requirements). Ministry of Economy intends to implement similar project in the milk production subsector.
Ministry of Economy and other involved Ministries are expected to provide another EUR 30 million to support the local business of which EUR 22.75 million will come through the PHARE program and the rest will be national co-financing.
In majority cases though the Bulgarian companies are trying to locate sources for financing through Bulgarian and/or international banks. US firms can access EBRD, MDB, Citibank, OPIC and EXIM Bank financing for different projects in the foodprocessing sector (for details please visit www.export.gov/bulgaria -- Bulgaria CCG, Chapters 6 and 7)

4. Trade Promotion Opportunities

List of annual food processing equipment trade shows:

Vinaria - February 5 - 9, Plovdiv
International Exhibition of Wine-growing and Wine-production , Wine Festival

Hotels and Restaurants Expo, February 26-28, Sofia
Hotels and restaurants equipment, supplies, technologies, service

Hotels, Restaurants, Coffee, March 27-31, Varna

Torgo-Wines-Delicacies, April 8-12, Albena
Beverages and soft drinks, meat and dairy products, bakery products, furniture and equipment for hotels and restaurants

Pivo, Gastro, Bakery, May 5-10, Plovdiv
International Exhibition of Beer and Brewing, Food Products and Technologies
Bread and Bakery Products

Mesomania, Bakery, October 27-31, Sofia, Meat and bakery products

Foods and Drinks International Show, November 25-29, Sofia

Balkan Food & Drinks, Balkanpackaging, October 30 – November 2, Sofia

Contact for all Trade Shows and Fairs:
Bulgarian Chamber of Commerce and Industry, webpage http://www.bcci.bg
Tel. (359)(2) 981 66 26
Address: 43 “Parchevich” Str, Sofia 1000, Bulgaria

5. Useful web sites

Ministry of Economy: www.mi.government.bg, www.mi.government.bg/integration/eu
Bulgarian Investment Agency: www.bfia.org
Privatization Agency: http://priv.government.bg/apnew/Root/index.php
Ministry of Agriculture and Forestry: www.mzgar.government.bg
http://www.export.gov, http://www.buyusa.gov