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Voluntary Public

Date: 11/4/2016

GAIN Report Number: BU1633

Bulgaria

Post: Sofia

Dairy and Products Annual

Report Categories:

Dairy and Products

Approved By:

Russ Nicely

Prepared By:

Mila Boshnakova

Report Highlights:

The Bulgarian dairy industry has experienced a challenging year. Besides lower milk prices, higher milk supply in the EU, stagnant local purchases and limited export opportunities, the industry had to struggle with continued efforts for improvement of milk hygiene and quality and with the first ever outbreak of Lumpy Skin Disease (LSD) in April 2016. Dairy inventory has continued to shrink at smaller farms while larger farms grew and have invested in productivity, technology, genetics and management improvements. In 2015 milk collection and processing increased after years of decline.

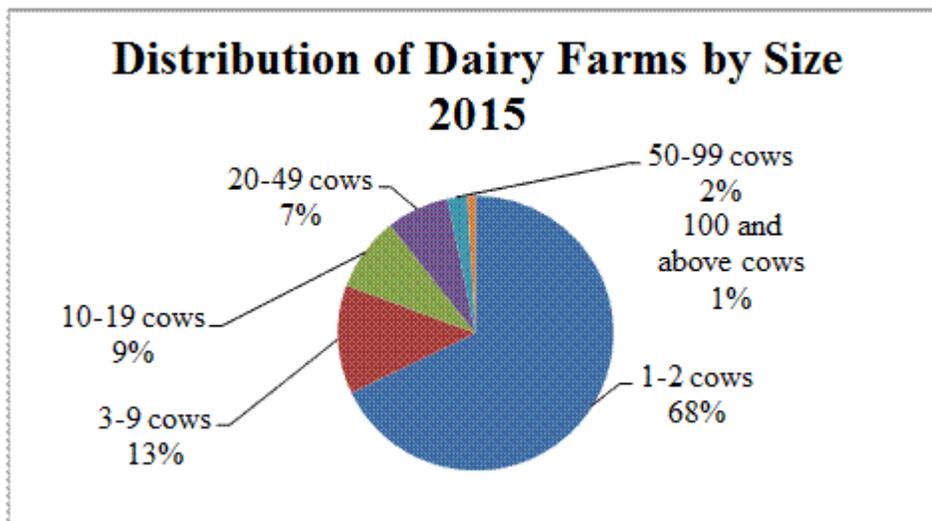
The prospects for 2016 are for a modest decline in dairy inventory and milk supply due to the epizootic situation. However, milk collection is expected to grow. Concentration and commercialization may lead to a further decline in subsistence farms. Changes in domestic support programs introduced in July 2016 for 2017-2020 are likely to have a very positive effect on the competitiveness of the local industry.

General Information: Overview

The Bulgarian dairy sector has experienced a critical year in 2015/16. The last derogation for EU milk quality requirements expired in December 2015. Following an EC audit in the fall of 2015, the MinAg introduced an action plan for those few farms which were not yet in compliance to fully meet EU requirements.

Abolishment of milk quotas, tough competition, low prices, and EU quality and hygiene regulations led to accelerated concentration and commercialization of the sector. In early 2016 small subsistence farms with 1-2 dairy cows were 29% less than the year before. These farms still accounted for 68% of all farms in the country (Graph 1) but raised only 10% of dairy cow inventory. Many small farms have switched to beef, sheep, or goat production. In 2015 the growth in beef cow numbers was impressive at 56% to 76,000 head. Some of these beef cattle were dairy cows registered as “for meat”. Other small farms make efforts to register under direct sales regulation (Ordinance 26) to have better access to the market.

Graph 1. Distribution of Dairy Farms in Size, 2015



Dairy Farms and Dairy Cows Inventory

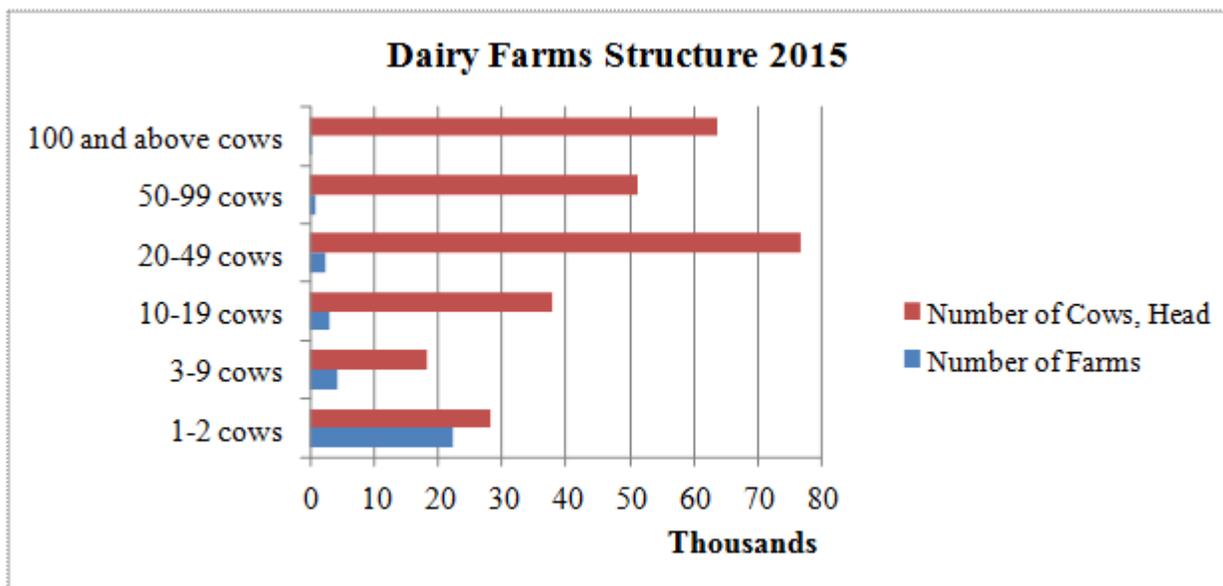
In 2015 the number of dairy farms declined by 27% and the dairy cow inventory decreased by 6.5%. The reduction was concentrated in small farms with up to 10 cows. The number of farms with 1-2 cows decreased by 29% and the inventory by 31%; for farms with 3-9 cows the respective reductions were by 36% and 39%. On the other hand there was growth in the category of commercial farms, especially those with over 50 cows. Commercial farms were 4% higher and raised 5% more cows in 2015.

Similarly, the largest farms performed the best with 14% more farms and 13% more cows in this category (Table 1).

As of today, 11% of all farms have over 20 cows and account for 69% of dairy inventory (Graph 2 and 3). The average number of dairy cows per farm increased from 6.5 in 2014 to 8.9 in 2015.

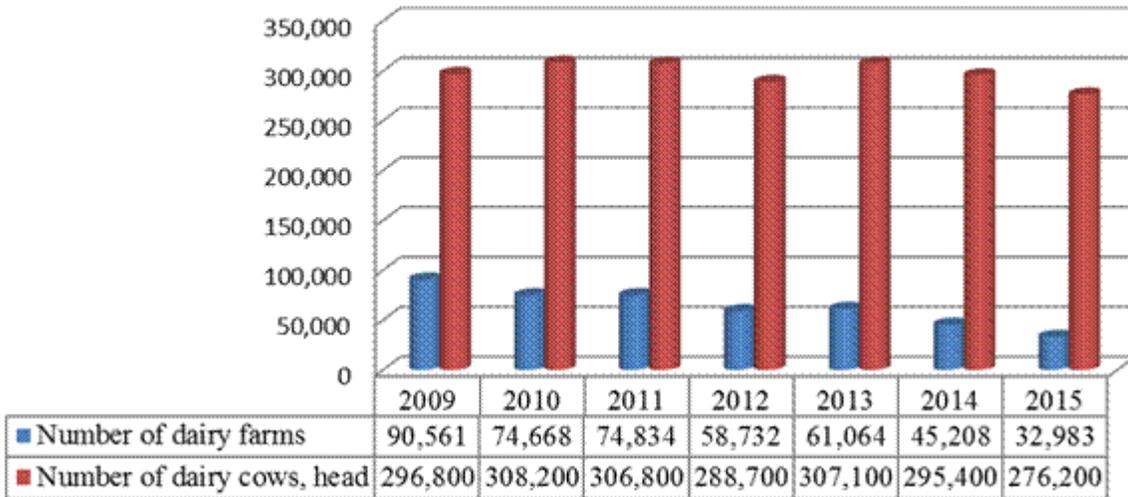
The projection for dairy cow inventory is to decline slightly in 2016 and stagnate in 2017 supported by favorable feed costs and new EU and Bulgarian subsidies for the dairy sector. Average milk productivity has the potential to grow, especially in commercial farms. On the other hand, hot and dry summer weather in 2016, vaccination due to the epizootic situation and lower milk prices have forced smaller farmers to reduce feeding costs and average milk yield reportedly declined.

Graph 2. Distribution of Dairy Farms in Size, 2015



Graph 3. Dairy Farms and Dairy Cow Inventory Development, 2009-2015

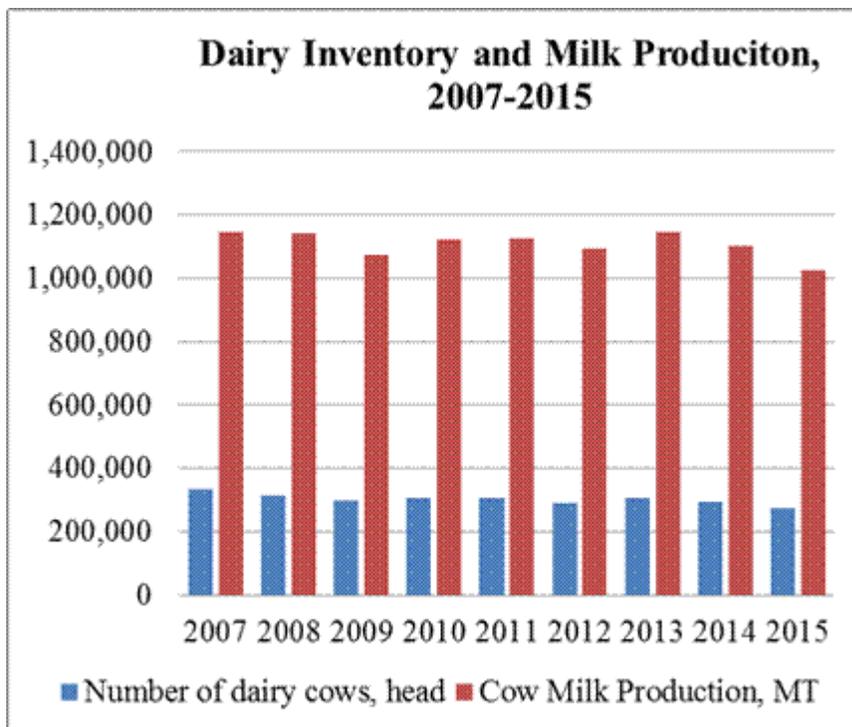
Dairy Farms and Dairy Cows Inventory Development 2009-2015



Fluid Milk Production

In 2015 fluid milk production declined by 6.4% including 6.8% less for cow milk year-on-year (Table 2 and Graph 4). Lower milk production was a result of decreased inventory (6.5%) and lack of substantial growth in average milk yields which could not make up for the lower number of dairy cows. The projection for 2016 is that milk production will likely decline due to the LSD outbreak, the hot and dry summer and inventory loss. In addition to culled cows (2,600 by the end of July), milk produced by farms in LSD outbreak locations is destroyed. Milk produced by other non-affected farms has to be processed only in the country and should undergo mandatory pasteurization. Still, since the LSD outbreak has affected mainly subsistence farms, the effect is not likely to be considerable. FAS/Sofia projects milk production level of about 1.0 MMT.

Graph 4. Dairy Cow Inventory and Milk Production, 2007-2015



Milk Deliveries: The biggest concern for the industry has been the steep decline in milk deliveries for processing since 2007 (Table 3 and 4, Graph 5). However, in 2015 the commercialization of the sector, the vertical investment of dairy processors into farming, and the domestic support programs encouraging better financial discipline, all resulted in the first growth in milk deliveries in years: 1.4% for all milk and 2.7% for cow milk. Cow milk deliveries accounted for 49% (45% in 2014) of supply. Industry data for January-May 2016 shows that milk deliveries were at 277,000 MT, 7.3% more compared to 2015. The expiration of EU milk quality derogation led to more consistent milk quality among farms while the reduction of the number of small farms optimized the milk collection cost although the country still lacks dairy farm coops.

The total output of processed dairy products grew slightly in parallel with higher collected milk and increased imports of milk. Favorable consumer demand in 2015 encouraged increased imports of price-competitive fluid milk and milk substitutes such as whole and non-fat powder milk, concentrated and non-concentrated milk and cream and whey (see the Trade section) to complement insufficient local milk supply.

Milk Cost and Prices: Milk prices continued to slide in 2015 and 2016 and varied at 0.25-0.30 Euro/liter (U.S. \$0.26-0.32). In June 2016 the price was 0.24 Euro/liter (U.S. \$0.27), compared to EU average of 0.258 Euro/liter. The average milk price in May 2016 was 3.8% less than the price in April 2016 and 7% less than in May 2015 compared to a decline of 14% for the EU average. (source: EU Milk Observatory). As of May 2016, milk prices in Bulgaria were in the middle of the EU range and 12 member-states had lower milk prices. This fact stimulated higher imports of raw milk. In July and August the prices were about U.S.\$0.27/liter although some regions had even lower prices at

U.S.\$0.17/liter.

Feed continued to account for 70% of milk production costs. In 2016 grains and compound feed formulas for dairy cows were less expensive when compared to 2015. However, a lack of pasturing due to the hot and dry summer was negative for the dairy farmers.

Milk Quality: The derogation for adapting to EU milk quality criteria expired in December 2015. The EC conducted an audit of the industry and identified deficiencies in milk quality sampling control. At the end

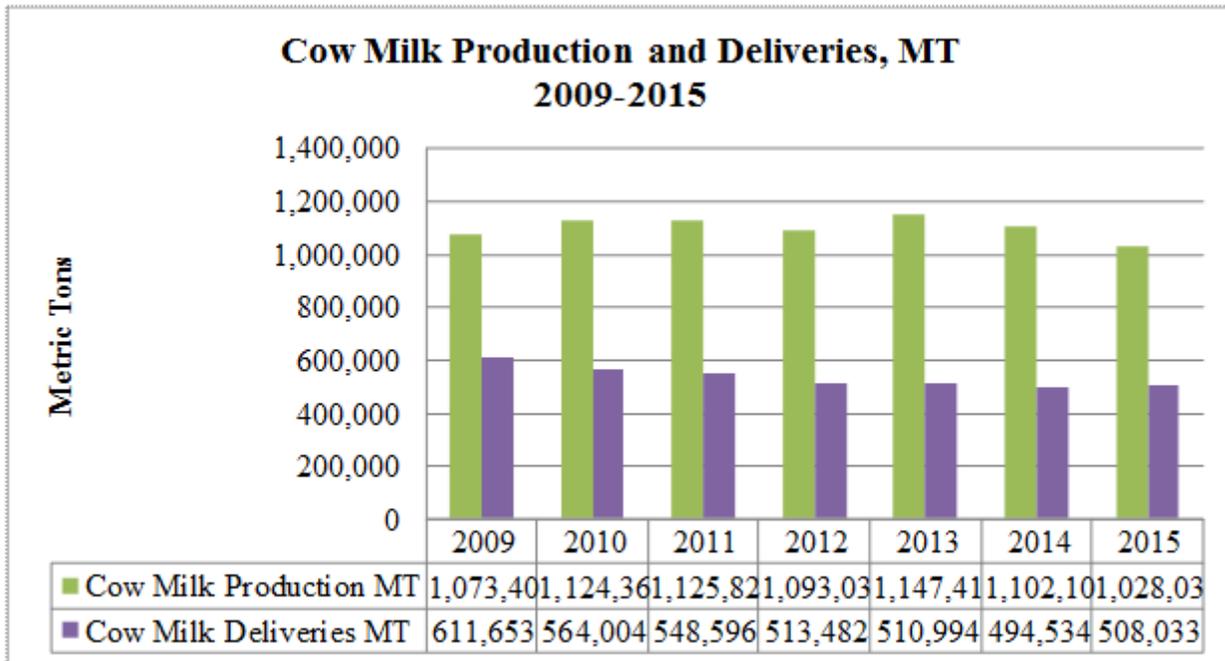
of 2015, some 4% (or about 20,000 MT) of milk produced by 13,000 farms was not compliant with the EC standards. As a result of the EC audit, the authorities adopted an action plan for improvement of milk quality control system. The action plan includes thorough inspections of larger dairy farms (about 1,500 farms with more than 50 cattle producing about 500,000 MT of milk deliveries) in the first half of 2016, followed by inspections of smaller farms (10-50 cows) in the second half of 2016 and subsistence farms (1-10 cows) and milk collection stations in 2017. Milk samples are tested not only for microorganisms and somatic cells but also for freezing temperature, fat and protein content. Each farm is tested for two

and a half months with at least 5 samples. If farms do not produce compliant milk, they are given 3 months to carry out corrective actions. The results of the first inspections of larger farms should be ready by September. If there is still not compliant milk, it will be mandated to be processed only for dairy products with more than 60 days aging (no production of yogurt and drinking milk) i.e. cheeses.

Milk for Direct Sales: Milk for direct sales and on-farm cow milk consumption began to decline since 2013 (Table 3) after years of growth prior to that year. The year 2015 was a breaking point in this trend as for the first time since 2007 cow milk deliveries grew (2.7%) while milk for direct sales declined substantially (14.5%) although its share of total cow milk still exceeded 50%. This is related to the accelerated commercialization of dairy farms and with the efforts to limit the grey milk market.

The number of registered farms for direct sales skyrocketed in 2016 to 840 (as of July 2015). There are 38-40 registered small farms for processed dairy products, however, they are unevenly spread and 9 out of 28 regions have no registered small processors. In July 2016 15 direct sales farms formed a partnership for sales under a special collective brand, supported by a Swiss NGO. As of July 2016 the country had 10 farmers markets. The expectations for 2016 direct milk sales are for a decline since the LSD outbreak requires all milk for processing to be pasteurized. At the same time, in October 2016 dairy farmers appealed for further liberalization of direct sales regulations. They appealed to sell directly dairy products not only in their region but in any region in the country; they also insisted on raising the limit of processed milk.

Graph 5. Cow Milk Production and Deliveries, 2009-2015



Factory Use/Milk Processing

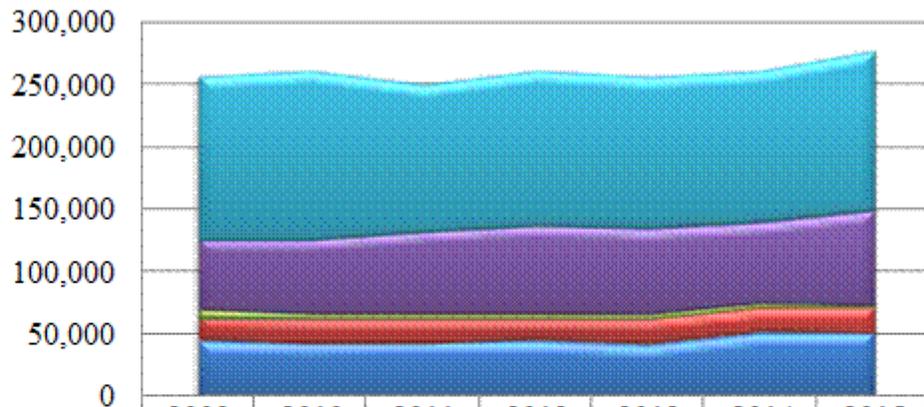
Cow milk deliveries in 2015 were 2.7% higher when compared to 2014 and the share of processed cow milk in total milk output was 49%. Direct sales and on-farm cow milk consumption was lower by 14.5% and its share was 51% of cow milk. Cow milk accounted for 94% of all factory use, followed by sheep milk at 3.6%, goat milk at 1.5% and buffalo milk at 0.6% (Tables 3 and 4). The quantities of processed non-cow milk decreased by 17% in 2015 compared to the previous year, with sheep milk leading with 25% annual reduction.

Production of most dairy products increased compared to 2014. The highest growth was seen for packaged fresh drinking milk (+15.3%), followed by yogurt (+6.4%). Cheese production stagnated. The output of cheese with plant/vegetable oils (usually palm oil) declined by 1.9% due to a massive industry and consumer campaign against these products as well as due to various regulations restricting their sales. The categories of other cheeses and other dairy products enjoyed a good growth (Table 5).

In general, the production level for processed dairy products has grown above 250,000 MT (Graph 6) since 2013 despite lower milk supply due to increased imports of fresh milk and milk substitutes, and in 2015 due to more collected and processed local milk. Improved consumer demand in 2015 led to faster 6.4% growth in production of dairy products vs. 2014 compared to 1.9% growth in 2014 vs. 2013. Tentative data for 2016 indicates that this trend is likely to be sustained.

Graph 6. Processed Dairy Products Production, 2009-2015

Processed Dairy Products, Output in MT, 2009-2015

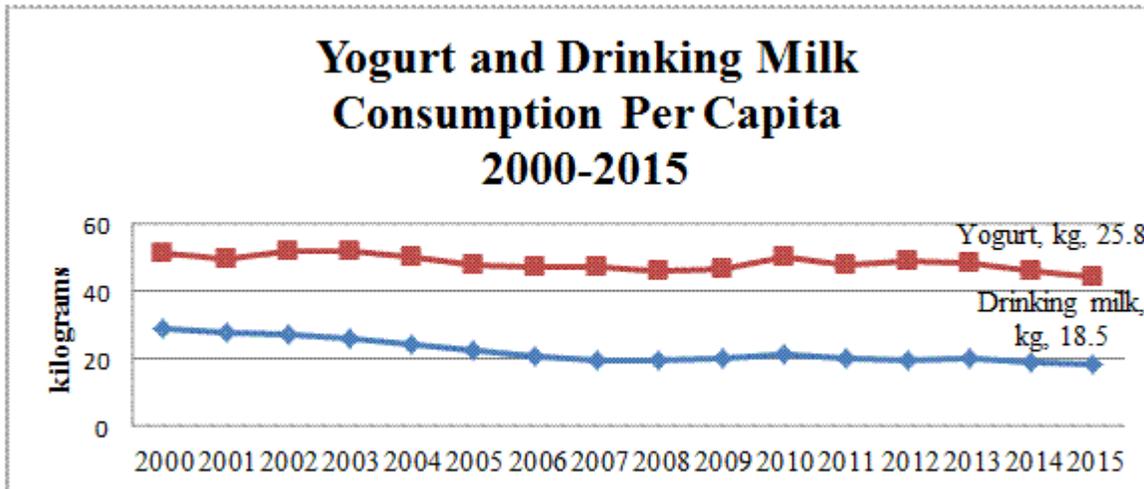


	2009	2010	2011	2012	2013	2014	2015
Yogurt, MT	131,044	134,670	118,027	123,482	120,881	120,678	128,404
Packaged Fresh Drinking Milk, 000 liters	55,950	60,143	65,298	69,973	68,452	64,614	74,493
Fresh Cheese, MT	5,011	4,558	4,070	4,949	4,613	4,989	3,907
Yellow Cheese, MT	20,313	19,946	19,507	17,796	20,138	19,692	20,079
White Cheese, MT	45,153	42,884	44,263	45,221	42,344	51,225	51,089

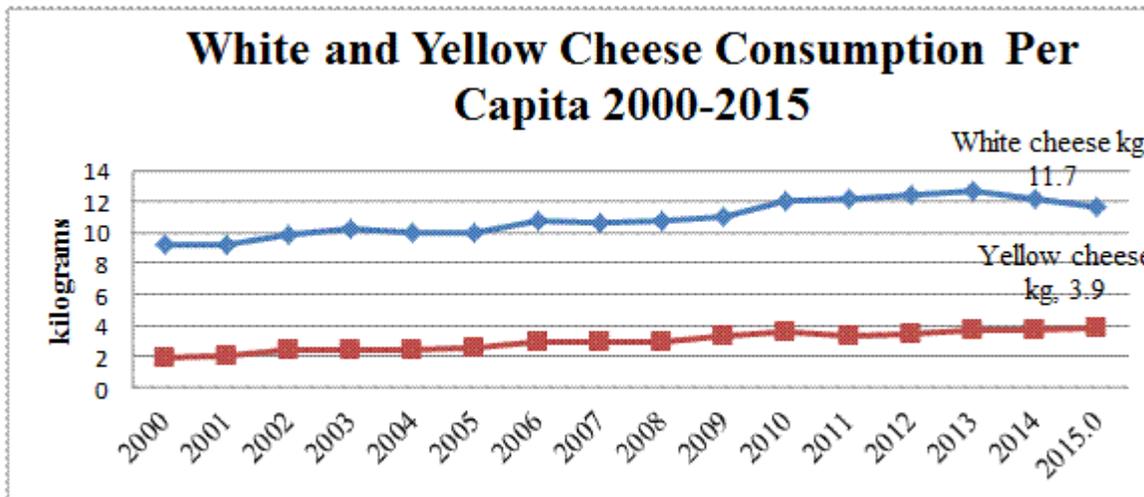
Consumption

In 2015 the market faced a small drop in average annual consumption of dairy products from 64.7 kg/per capita in 2014 to 63.3 kg per capita or by 2%. Consumption of drinking milk, yogurt and white cheese continued to see lower consumption which started in 2014 (Graph 7). Cheese consumption per capita was stagnant at 15.8 kg and 15.6 kg in 2014 and 2015, respectively. This data, however, does not include the HRI sector which accounts for increasingly larger share in consumption and is a main driver for higher production of some dairy products.

Graph 7. Yogurt and Drinking Milk Consumption Per Capita, 2000-2015



Graph 8. White and Yellow Cheese Consumption Per Capita, 2000-2015



Cheese Consumption: The cheese market has been in the focus of industry and consumer attention in 2015/16. Local producers dominate this market with 98% of supply. There has been a massive campaign against so called "imitating" products which contain plant oils (palm oil). The prices of "imitating" cheeses are usually 25-30% of that of conventional cheese. Out of a total 250 dairy processors, 11 companies produce such products, 180 companies use only milk, 58 companies produce both types of products, and 33 companies produce cheese under voluntary national standards. "Imitating" cheese accounts for 40% of white cheese production and is popular among lower income consumers and certain HRI segments. Its production has grown from 8,700 MT in 2008 to 19,000 MT in 2015. According to industry sources, companies producing both types of cheese record 80% of their sales from "imitating" products and 20% from dairy products.

As a result of identified mislabeling cases (in 2.5% of the samples the label did not contain palm oil) and due to a massive consumer campaign, one establishment was shut down in 2016 and the MinAg initiated an amendment in the regulations. The new rules will require separation of "imitating" from

dairy products at the point of sale; a ban to use the term "dairy" on the label; mandatory placing of "imitating product" term on the label in larger fonts; "imitating" products" can be sold only packaged and not in bulk, etc.

Another trend is the increase in cheese production with higher water content. The Association "Active Consumers" tested 36 brands in 2005, 2008, 2011 and 2016. The results showed that while in 2005 there was no cheese with more than 55% water content, in 2016 some 19 brands have more than 59.4% water content and 3 brands have over 65% water content. A new trend is also a lower protein content at 12% and less compared to the standard 15%-16%.

Finally, the share of cheese sold in bulk in 2015/16 has declined (70% share) v.s. packaged products expansion. Private labels purchases were reduced to 3% while branded products sales grew. Another trend was higher sales of cheese made from goat milk.

Along with this trend, there has been a growing demand for higher quality cheese. A retail chain (Billa) launched an education campaign for dairy products named "Billa Dairy World" through a road show in 6 cities in September 2016. Leading local producers took part in the show encouraging consumption of quality dairy products. As of October, total 45 out of total 260 dairy manufacturers are producing dairy products under a voluntary industry standard which is considered to be a mark for highest quality. Per the retail industry sources, the demand for such products has grown.

Yogurt Consumption: A market study carried in July (source: Regal magazine) showed that the market share of commercially produced yogurt expanded from 95% to 97% while that of homemade yogurt was reduced from 5% to 3%. This is a significant shift compared to five years ago when the share of commercial yogurt was 88%. In 2012 about 11% of households consumed homemade yogurt compared to 3% in 2016. Another interesting trend was the increased preference towards higher fat content product (4%+ fat) while buyers of low fat content yogurt (up to 0.9%) declined from 16% to 13% of households. The most popular are yogurts with 3.0% - 3.9% fat content which are purchased by 83% of households.

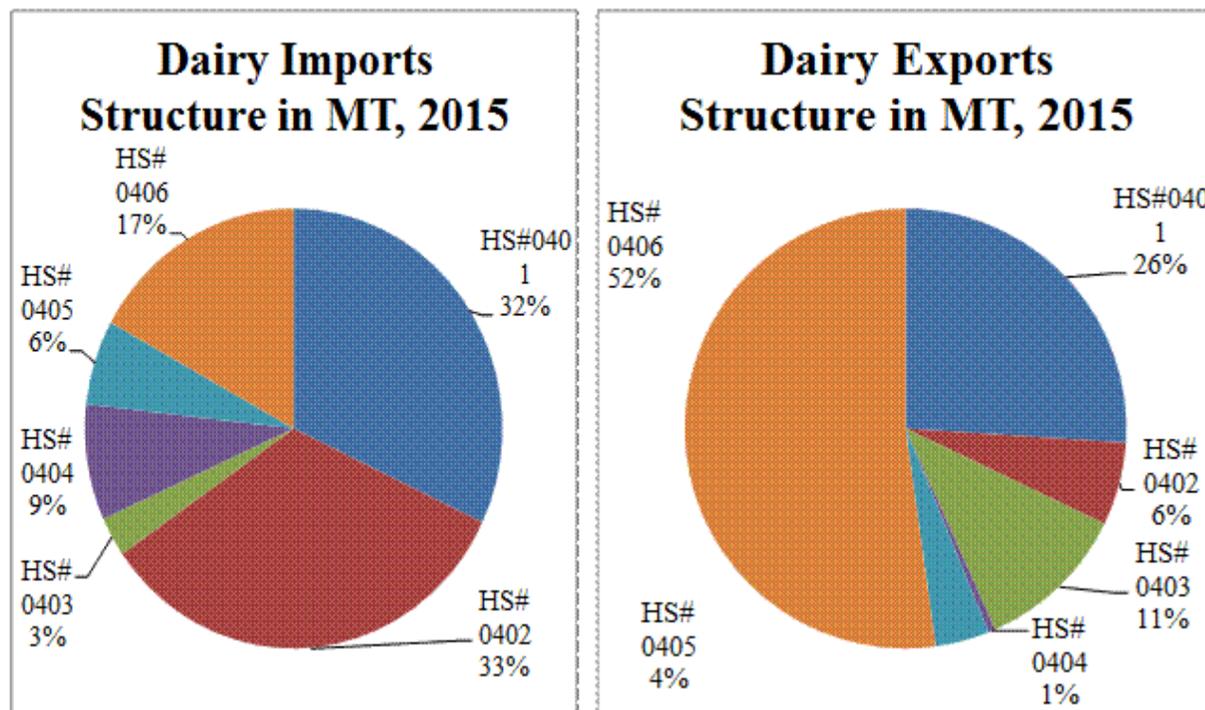
Butter Consumption: A recent market survey (Source: Regal magazine) for the period December 2014-December 2015 showed that the butter market grew by 11.8% in volume and by 7.3% in value. About 76% of households buy butter. Branded products purchases have expanded while those of private labels have fallen from 15% to 10%. The butter market is dominated by foreign products accounting for over a 50% share. Butter is purchased mainly at hypermarkets (26%), followed by groceries (18%) and supermarket with 17%. The butter market was also in the focus of the authorities. Inspections identified that some companies use non-dairy oils in the butter without proper labeling. Three companies were fined in May 2016 for these violations. The fines were considerable at 2% of the net revenue of the companies for the previous year.

Trade

Favorable local consumer demand, shortage of price-competitive milk for processing, as well as attractive EU milk/dairy prices stimulated higher imports in 2015. Imports of dairy products (HS#0401-

0406) (volume) increased to 130,000 MT or 25.4% more than in 2014. Imports consisted of mainly fresh milk for processing as well as milk substitutes such as milk and cream, NFDM and WHM, and whey at 74% of total imports. The most considerable was the increase for fresh milk and cream by 57% and by 8% to 66,500 MT, and cheeses by 23% to 22,100 MT (Graph 9). Dairy exports in 2015 also increased by 8.6% to 50,000 MT. Cheeses accounted for the lion's share in exports with 52% (Graph 10), followed by fresh milk with 26% and yogurt with 11%.

Graphs 9 and 10. Dairy Imports and Exports Structure, 2015



Fluid Milk, mainly packaged ready to drink milk: Imported volume in 2015 was at 1,970 MT (1,996 MT in 2014), most of it from Poland. In 2016 until April, imports increased by 153% to 827 MT.

Fluid Milk: Imports in 2015 reached 38,271 MT or an impressive 63% more than in the previous year, with major suppliers Hungary, Poland, Romania and Czech Republic. In 2016 until April, imports skyrocketed by 146% to 21,000 MT. In addition to the traditional suppliers, Slovakia was also a source of milk. In 2015, exports of fluid milk had a sharp increase to 12,500 MT compared to 3,500 MT in 2014. The major destination was Greece.

Non Fat Dried Milk: Imports in 2015 continued to decline to 16,400 MT or by 6% year-over-year. The trend continued in 2016 until April with further 7% reduction to 4,500 MT. Poland, Germany and The Netherlands are the major exporters.

Dairy, Whole Milk Powder: Imported volume for 2015 was at 9,500 MT or 13% more compared to 2014. In 2016 until April, imports declined by 25%, sourced mainly from Romania.

Whey: Imports in 2015 increased by 11% to 11,000 MT with major exporters Slovakia, France and Poland.

Butter: Combined imported volume in 2015 continued to grow and reached 8,314 BET (butter in milk equivalent) (30% more than in 2014), sourced mainly from Germany, Poland and The Netherlands. The trend was sustained in 2016 (January- April) with 21% growth to 3,000 BET. Exports in 2015 dropped by 50% to its more usual level of 2,200 BET (4,409 BET was exported to Romania in 2014). In 2016 (until April) exports have continued to slide.

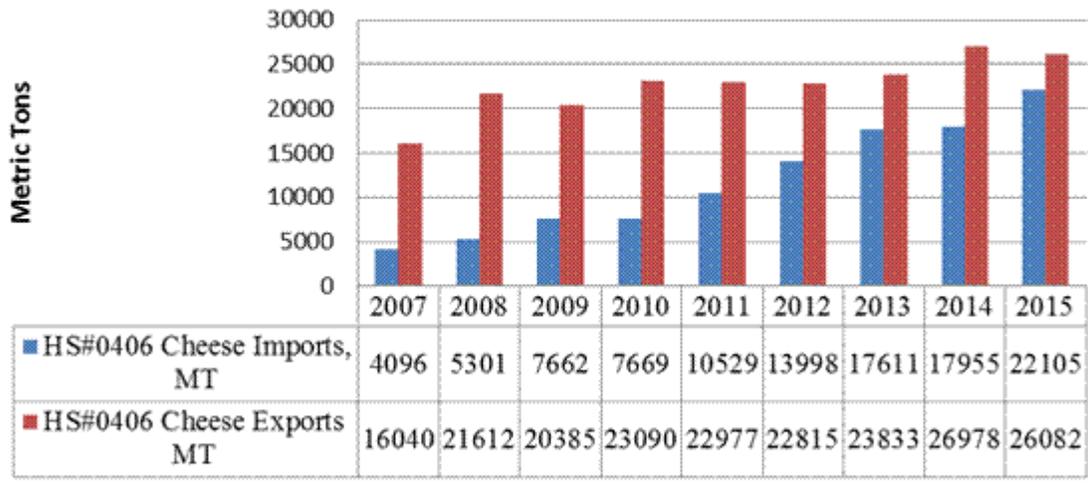
Cheese Graph 11: Combined imports in 2015 were at 14,300 MT or 17% more year-over-year. In 2016 until April imports had a considerable growth of 24% to 4,800 MT. Imported cheeses are sourced mainly from Germany, Poland, and the Netherlands. In 2016 (until April), The Netherlands dominated with 120% growth in exports to Bulgaria on expense of Germany and Poland. Cheese remains a major export product of Bulgaria. Export volume in 2015 totaled 20,700 MT (4% less than in 2014), mainly to Greece, Germany, USA, Lebanon, Romania and Australia. In 2016 until April exports increased by 27% to 6,900 MT, of which the major quantities went to Greece. Bulgaria keeps a positive balance in this trade (U.S. \$43 million in 2014 and U.S. \$37 million in 2015).

The biggest challenge for Bulgaria's dairy exports in 2016 is the LSD outbreak and related trade limitations. Following the outbreak, dairy products had to be exported accompanied with TRACES certificate to the EU Common Market.

In 2015 and 2016 the MinAg made efforts to promote dairy exports to Asian markets. High level delegations to China and Vietnam discussed opportunities for joint ventures for dairy production (yogurt) and for intensified dairy trade. China preliminary approved dairy imports from Bulgaria in January 2016 and at least one cheese producer closed contracts for exports to China. On September 17, Bulgaria and China signed a bilateral protocol for exports of dairy products.

Graph 11. HS#0406 Cheese Trade, Imports and Exports, 2007-2015

HS#0406 Cheese Trade, 2007-2015



Agricultural Policy

Animal Health: The LSD outbreak was the biggest challenge for the dairy industry and the authorities in 2016. Bulgaria does not have history or experience with this disease. Reportedly, the disease was transmitted from Turkey and Greece. Following the first outbreaks in mid-April, the authorities vaccinated all cattle stocks until July 15. Air spraying against LSD carriers was performed along rivers and lakes covering more than 260,000 HA and causing bee honey farmer protests. The authorities worked closely with international partners such as the International Atomic Agency and FAO and hosted Ministerial meeting on LSD on September 8 and 9. The forum focused on the two most dangerous diseases for the cattle sector in the region – LSD and Bluetongue.

Following the conference, the EC lifted some of the trade restrictions, specifically on trade with milk and dairy products for human consumption and fresh beef. When milk is used for feeding animals, it still had to be heat treated to not transfer the virus. The EC also presented a new regulation on LSD control which was subsequently voted by member states and approved on September 14 in Brussels. The new regulation contains more liberal trade limitations compared to the previous one. There were 217 LSD outbreaks and 2,800 culled cows in the country in 2016. Over 55% of outbreaks were at small 1-9 cows farms. The budget for LSD control exceeded 15 million Euro (U.S. \$17 million) of which 1.0 million Euro (U.S. \$1.1 million) for compensations for culled animals (500-1,000 Euro/head). In October 2016, the MinAg introduced de minimis help (EC 1408/2013) for farmers who had fully destroyed farms by LSD with an approved budget of 13.1 million leva (U.S. \$7.5) at a rate of U.S.\$34/cow and U.S.\$8.6/sheep.

After the first outbreaks, special instructions (EC Decision 2016/645) were provided for transportation, processing and sales of live animals, milk, meat and processed products. Milk produced in LSD outbreaks was destroyed while milk produced at other farms could be used for processing after pasteurization. This special treatment should be maintained for 3 years after the vaccination. Dairy products could be exported to the EU Common Market but must be accompanied with TRACES certificates. Meat and meat products (marked by a special sign) should be sold on the local market and

not exported. Another special sign was placed on sterilized meat products (cans) which could be either sold on the local market or exported with TRACES certificates. Live cattle exports were banned for 3 years after the last outbreak.

Animal Welfare: In May 2016 Bulgaria supported the EC initiative for establishment of an animal welfare platform. However, the MinAg expressed an opinion that any introduction of new standards should be carefully considered due to associated cost and current crisis in the dairy sector. Bulgaria has higher traffic in live animals due to its geographic location, especially to third countries, and any new rules for control stations and animal rest depots might be a challenge. Currently, the country has one control station (on the border with Turkey) which often has inadequate capacity.

Animal Breeding and Selection: In an effort to improve its breeding and selection work, the MinAg Agency for Animal Selection and Breeding established a National Genetics Lab under a Bulgarian-Swiss project. The lab will carry out DNA analysis for correct definition of existing breeds in order to facilitate Breeding Associations work. Genetic maps of national breeds will be developed as well.

Food Safety: In September, Bulgaria informed the EC (notification number 2016/493/BG) about its plans to specify the requirements (Ordinance #1) for milk and dairy products along the entire food chain to guarantee the reliability and control of the processes related to production, storage, sampling, laboratory testing, processing and marketing.

Investment at Dairy Farms: The current EU-funded Rural Development Program 2014-2020 provides preferential ranking for dairy farmers' investment projects. With the first call for such investment in 2016, 55 farms applied with projects for 68 million leva (U.S. \$38 million). Another program for small farms was opened in June. It will provide incentives with grants up to 15,000 Euro (U.S. \$17,000) to expand the farms by 20%.

Pasture Land Use New Regulation: In 2016 the MinAg initiated a second amendment (the first was in 2015) to the Agricultural Land Law to allow dairy farmers to have easier and preferential access to municipal pasture land. The expectations are that the last legislative change will provide access to 50% more pastures for dairy farmers. In May 2016 the authorities lowered rents for pastures in national parks as higher rents will be paid by larger farmers (U.S. \$5.7/HA).

Private Storage for Cheeses: In February Bulgaria used this support scheme for the first time for 247 MT of cheese which was 36% of the country allocation (696 MT).

School Milk Program: The school milk program for 2016/17 will have a budget of 9.7 million leva (U.S. \$5.5 million). The MinAg considers this program very important for support for the dairy sector and makes efforts to increase the budget every year. In 2016 about 300,000 children from 2,115 schools will benefit from the program. The program includes daily intake of 250 ml of drinking milk, 200 grams of yogurt, 200 grams dairy products with added fruits and 30 grams of cheeses. In October 2016, the MinAg adopted changes in the program aiming price reductions for delivered dairy products and better cost efficiencies.

Domestic Support: Bulgaria has been an advocate for various initiatives for higher dairy sector

support. In 2015/16 the Bulgarian MinAg often had united positions with other EU member-states in similar dairy sector situation such as Croatia, Romania, Slovenia, Portugal and Austria.

Bulgaria received 5.8 million Euro (U.S. \$6.5 million) from the second EU aid package announced in July 2016. In April 2016, the MinAg paid the first EU emergency aid package at 10.2 million leva (U.S. \$5.8 million), the dairy cows subsidy rate was set at 16.34 leva/head (U.S. \$9.30) (Ordinance 21 of November 12, 2015).

In 2015 and 2016 farmers were eligible for transitional state aid. In 2015 about 6,000 farmers received such subsidies for total 48 million leva (U.S. \$27 million), at a rate of 195 leva (U.S. \$111)/head, payable in two tranches for 242,000 animals. About 3,000 farmers received subsidies for the delivered milk during the last milk quota year. The applications for 2016 are for 235,000 animals at 5,700 farms for a lower budget of 45 million leva (U.S. \$26 million) at the same subsidy rate.

Current coupled support subsidies are at the maximum allowed level and will be kept through 2014-2020 period (232 million leva, or U.S. \$132 million). Half of this budget targets the dairy and livestock sector. First coupled support payments were done at the end of 2015. The MinAg reported that 284,000 dairy cows were subsidized in 2015 and 293,000 applications were submitted for 2016. Additionally 62,000 breeding cows in 2015 and 84,000 cows in 2016 were also subsidized (35% growth).

In July 2016 the MinAg analyzed the first results of implementation of the coupled support and adopted significant changes with the goal to support those dairy farms (medium sized) which have the potential to grow and be competitive. Another goal was to introduce stringent control over milk sales (requirement for justification of milk sales with sales documents) and curb the grey sales. The new changes will be implemented 2017-2020. Farms can participate in only one of the available programs. Animals should comply with EC Regulation 1760/2000, have veterinary passports and be registered in Food Safety Agency database.

The coupled support includes three programs as follows:

- *For dairy cows:* requirement for minimum 10 dairy cows at the farm; the farms should produce EU quality and hygiene complaint milk; rate of about 257 leva/head (U.S. \$147) in 2015 for 182,000 animals at 6,400 farms; total allocation of 46.7 million leva for 2015 and 2016 (U.S. \$26.0 million). The applications for 2016 are for 176,000 animals (5% less) at 6,400 farms which means a higher rate to 272 leva/head (U.S. \$155 or 139.1 Euro) per MinAg Ordinance RD 09-794/ October 19, 2016.

The new change in this program is the introduction of eligibility ceiling of 250 dairy cows/farm, the requirement for a minimum quantity of milk sold on the market (2.0 MT/cow for mountain farms and 3.2 MT for other farms); farmers need to present sales documents (invoices, receipts, trade contracts). The updated program will have a lower budget of 30 million leva (U.S. \$17 million) and is estimated to cover 150,000 animals at 200 leva/head (U.S. \$114).

- *For dairy and beef cows under selection/breeding control:* minimum 10 animals per farm; subsidy rate of 378 leva/head (U.S. \$216) in 2015 for 60,000 animals at 960 farms; total allocation of 22.9 million leva for 2015 and 2016 (U.S. \$13 million). The application for 2016 are for 84,000 animals at 1,600 farms which means a lower rate to 275 leva/head (U.S. \$157 or 140.6 Euro) per MinAg Ordinance RD 09-794/ October 19, 2016. The latest available data shows that the number of cows under selection control has increased from 62,000 in 2012 to 84,000 in 2016 or by 35%.

The changes introduce a split in the program into two sub-programs. The first sub-program will be for breeding dairy cows with the new eligibility requirement for at least 20 cows of one breed, recording in the heard book, and sales of at least 4.0 MT/dairy cow. Two subsidy rates are introduced - 418 leva/head (U.S. \$239) for farms up to 250 cows; and 310 leva/head (U.S. \$177) for farms with more than 250 animals. Milk sales have to be justified with respective accounting documents. Thus the new program will have much higher budget of 37 million leva (U.S. \$21 million) which will cover 92,000 dairy cows.

- *A new program for small dairy farms (1-9 dairy cows) in mountain regions* is introduced for the first time. The program is currently applicable for 1,170 farms with 6,600 dairy cows, located in mountains at above 750 m altitude. The budget for 2017 is 1.2 million leva (U.S. \$0.68 million) with a subsidy rate of 180 leva/head (U.S. \$103). To date such farms were excluded from domestic support programs.

In October, 331 dairy farmers applied for the EU program for reduction of milk production (EC Regulation 2016/1612) under country’s allocation of 5,369 MT (U.S. \$3.3 million). The approved average amount per applicant is 16 MT at a value rate of U.S.\$0.08/liter. Individual farmers should reduce their milk output with at least 1.5 MT.

Two more programs were available in October. Dairy farmers applied for 62 million leva (U.S.\$35.4 million) transitional state aid for farms with up to 200 animals, and at a rate of U.S.\$3.4- U.S.\$14/animal. The beneficiaries of this program are 12,000 farmers. In addition, 21,286 small farms which do not receive any other support such as direct single area payments for land/pastures can apply for emergency help under EC Regulation 2016/1613. Per the MinAg data these farms (with no own or rented land) represent 36% of all dairy farms in the country (59,000).

Table 1. Dairy Cattle Farms and Dairy Herd, 2014-2015

Changes in the number of dairy cattle farms and dairy herd, 2015 vs. 2014				
Number of dairy cows per farm	Number of farms as of end-2015	Change 2015/2014	Dairy cows, 1000 head	Change 2015/2014

1-2	22,374	-29.2%	28.3	-30.8%
3-9	4,231	-36.4%	18.3	-38.6%
10-19	2,873	-19.6%	37.7	-18.8%
20-49	2,423	2.3%	76.9	+5.5%
50-99	766	3.5%	51.3	+4.5%
100 and above	316	13.7%	63.7	+13.1%
Total	32,983	-27.0%	276.2	-6.5%

Source: Statistical Office, MinAg, Bulletin 307, May 2016

Table 2. Milk Production, 2008-2015, MT

Milk Production, 2008-2015, MT					
Years	Cow milk	Buffalo milk	Sheep milk	Goat milk	Total milk
2008	1,143,190	7,173	88,243	77,465	1,316,071
2009	1,073,401	7,022	87,247	64,090	1,231,760
2010	1,124,360	7,933	85,001	60,410	1,277,704
2011	1,125,824	8,868	89,296	61,543	1,285,531
2012	1,093,034	8,081	87,403	53,333	1,241,851
2013	1,147,418	8,704	93,814	54,425	1,304,362
2014	1,102,731	8,850	74,615	44,565	1,230,762
2015	1,028,036	9,454	73,964	40,810	1,152,265
Share, %	89.2%	0.8%	6.4%	3.5%	100.0%
2015/2014 Percent Change	(-6.8%)	+6.8%	(-0.9%)	(-8.4)	(-6.4%)

Source: Statistical Office, MinAg

Table 3. Produced and Processed Milk in 2013-2015, MT

Produced and processed milk in 2013		
	Total milk	Including cow milk
Processed at dairies	545,267 MT	510,994 MT
Other use: direct sales, on-farm and feed use	759,095 MT	636,920 MT
Total milk	1,304,362 MT	1,147,418 MT
Change 2013/2012	0.5% less processed total milk	0.5% less processed cow milk
Produced and processed milk in 2014		
	Total milk	Including cow milk
Processed at dairies	531,549 MT	494,534 MT
Other use: direct sales, on-farm and feed use	699,213 MT	608,196 MT
Total milk	1,230,762 MT	1,102,731 MT

Change 2014/2013	2.6% less processed total milk	3.3% less processed cow milk
Produced and processed milk in 2015		
	Total milk	Including cow milk
Processed at dairies	538,884 MT	508,033 MT
Other use: direct sales, on-farm and feed use	613,381	520,003
Total milk	1,152,265 MT	1,028,036
Change 2015/2014	1.4% more processed total milk	2.7% more processed cow milk
<i>Source: Statistical Office, MinAg</i>		

Table 4. Milk Production and Processing, 2013-2015

Production and processing on milk, 2013-2015							
Type of milk	2013		2014		2015		Change 2014/2013
	000 liters	% of total processed milk	000 liters	% of total processed milk	000 liters	% of total processed milk	
Cow milk	496,111	93.6%	480,131	93.0%	493,236	94.3%	+2.7%
Sheep	24,218	4.6%	25,180	4.9%	18,866	3.6%	-25.1%
Goat	7,037	1.3%	7,926	1.5%	8,035	1.5%	+1.4%
Buffalo	2,534	0.5%	2,830	0.6%	3,052	0.6%	+7.8%
Total	529,900	100.0%	516,067	100.0%	523,189	100.0%	+1.4%
<i>Source: Source: Bulletin 312, June 2016, Statistical Office, MinAg</i>							

Table 5. Production of Processed Dairy Products in 2014 and 2015

Production of processed dairy products in 2014 and 2015			
	2014	2015	Change 2015 vs.2014
Packaged fresh milk, thousand liters	64,614	74,493	+15.3%
Packaged cream, MT	2,316	2,429	+4.9%
Yogurt	120,678	128,404	+6.4%
Cheese, total	77,403	76,801	14.5%
-White cheese	51,225	51,089	-0.3%
--incl. cheese with plant fats	19,330	18,959	- 1.9%
-Yellow cheese	19,692	20,079	+2.0%
-Fresh cheeses	4,989	3,907	-21.7%
-Other Cheeses	1,495	1,726	+15.5%
Smoked cheeses	1,967	2,781	+41.4%

Butter/oils	1,001	974	-2.7%
Other dairy products	2,990	3,528	+18.0%
<i>Source: Source: Bulletin 312, 2016, Statistical Office, MinAg</i>			

End of Report