

Problems and Opportunities for the Milk Sector in Bulgaria

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Abstract

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This paper is devoted to investigation of the problems and opportunities for the milk sector in Bulgaria, standing for one of the key sectors in Bulgarian agriculture, facing new challenges attributed to the future membership of Bulgaria in EU. Indeed the Bulgarian milk sector currently suffers various problems attributed to aggravated structure of the production farms, where about 83% of the farms keep up to 2 dairy cows and their sustainability and efficiency is strongly undermined. Besides, the challenges for the sector are spread at the milk production, collection and processing stages taking into account the EU requirements for hygiene and quality control. Nowadays, according to the preliminary estimations, merely 25% of the total produced cow milk meets the EU standards and about 18% of all running dairies are licensed to export in EU, which testifies for crucial needs for progress during 3 years derogation. The opportunities for the dairy sector are imputed to the foreboding good prospects for milk products' export, as Bulgaria in the last couple of years sustains as a net exporter in terms of value and this trend is projected to keep on. Especially, the positive export trend is assumed for cheese products, which are the main milk derivative and are welcomed all over the world. The genial impulse on the living standard, which the annexation to EU is expected to conduce and significant access to the EU funds, can be reckoned as cue factors for improvement of the milk products' quality and for modernization of the dairy farm conditions. Thus, the dairy sector can expect an increase of dairy consumption in the domestic market and withstanding competitiveness in EU market.

Key words: milk sector, Bulgarian agriculture, EU market

Introduction

The dairy sector in Bulgaria has undergone dramatic changes in the period since 1992 when the dairy farms (fixed assets and livestock) were privatized. As for today, the dairy sector continues its dra-

matic development in an effort to respond to the upcoming EU competition and to meet the EU sanitary and hygienic standards. Major efforts are directed towards investments at all levels of the dairy chain, starting from investments in high quality genetic material; upgrading of farms, milk

collection stations and dairy processing establishments; and promotion of trade, especially exports. Factors contributing to revitalization of the sector are the development of the retail and food industries, as well as increased exports of processed dairy products over the last 3 years. The collapse in the dairy sector is comprehensive as specific differences between particular productions may be observed. Generally, there is a clear decrease in the number of livestock (from 2 to 4 times) in comparison to the socialist period. The tumble in sheep enterprise is the most serious one. The sheep herd dropped from 8.6 million heads in 1989 to 1.6 million heads in 2003, according to the last agricultural census in Bulgaria. Besides, only within the span 1990-1994, the number of sheep decreased by 4.3 million heads. Regarding cattle enterprise the drop during the last decades was 131% (from 1.5 million cattle during 1989 to 683 thousand cattle in 2003) (The Census of Agricultural Farms' 2003, carried out by MAF). The reasons for this state of Bulgarian livestock can be attributed to diverse spheres but one of the most relevant reasons is connected with a sharp increase in the domestic demand as a consequence of income reduction and economic crisis. Besides, the strong fall in dairy product export and abolishment of state subsidies for dairy production, are other causes for livestock collision.

During the last two decades significant changes have occurred in Bulgarian dairy farming; these changes concern farm organization, number, scale, running, etc. The dairy farms are not especially recorded by official statistics, as according to National Census' 2003 the holdings keeping dairy cows are tallied up to 194 699, the holdings possessing dairy sheep are estimated up to 232 896 hence the dairy farms can

be counted up to 400 000, which represents about 61% of all farms in Bulgaria and account for 33% of livestock export worth. In Bulgaria, the main dairy livestock includes cows, sheep, buffaloes and goats; because of the similar problems, their investigation in a common group is relevant. As far as the scale of the dairy farms is concerned, a major part of them is specified as small households, and this refers to 97% of cow and buffalo farms, 93% of sheep farms and 99% of goat farms. Even though large scale farms have a minor share in the total number of farms, in 2004 there was an increase of large cow, sheep and buffalo farms, respectively by 24%, 23% and 36% in the annual base. The main problems, which have been observed in previous years and which unfortunately have not entirely been solved yet in the dairy sector, can be outlined as:

- The great uncertainty experienced by the dairy farmers for more than a decade about the payment, regularity of milk purchase and other provisions of the deal between them and dairy processing enterprises.

- The lack of sufficient competition between dairy enterprises during the transition period led to the possibility for those enterprises to act very opportunistically. They maintained a low price of milk, evincing business inaccuracy by avoiding payment of stipulated prices, etc. The farmers responded to the enterprises' opportunism with reactive opportunism modifying the primary properties of the milk either by diluting it in order to enlarge its quantity or by adding some ingredients so as to increase the fat index.

- The low relevance of the property rights, as in most cases, the dairy farmers were restricted from enforcement of their violated contract rights. The defence of

their rights needed relatively high transaction costs because of failure of the judicial system to establish a well-working mechanism.

Altogether, the main goal, which is laid down for execution can be enunciated as: Investigation of problems and opportunities for the milk sector in Bulgaria, standing for one of the key sectors in Bulgarian agriculture, facing new challenges attributed to the future membership of Bulgaria in EU. As a result of this goal, in the paper the following objectives will be drawn up:

- Description of the current situation in the dairy sector, including milk production, milk collection, processing and consumption stages. The problems concerning the dairy farm structure, market realization and quality compliance will be elicited as well.

- Highlight the opportunities for dairy production related to increment quantity of milk processed by dairies, increased incomes of local consumers, accessibility to EU structural funds for modernization and opening new perspectives for export.

- Outline the requirements, influence and prospects concerning the dairy sector under forthcoming membership in EU. Competitiveness of local dairies in the common market, projections supposing different producers to meet and converge their activity with EU standards.

Structure of Dairy Farms

The quantity slump, which started from the very beginning of the 90's and was overlooked during the whole transition period, was ascribed mostly to a significant shrink of the farm scale and more correctly to the egregious position that small farms occupied in the overall pattern of dairy production. These farms are characterized as small, self-subsistent and

driven by a motive to satisfy their family needs rather than to grasp a maximum profit and market exposure. A particular phenomenon in Bulgaria during the last 15 years has been related to the widespread practice of farmers to sell their dairy production directly to the customers, bypassing the function of processing and manufacturing companies. Especially regarding milk, the farmers are able to get higher prices by peddling fresh milk or homemade cheese as compared to the prices they can obtain if they deliver their production to the dairy businesses. At the same time farmers sell their products by peddling at prices that are 20 - 30% lower than market prices putting aside quality and sanitary issues. Bargaining by peddling is difficult for farmers burdened by other troubles such as finding customers and selling their products, but the prices they get tend to recompense their efforts. In many cases, dairy businesses cannot compete effectively and offer farmers a palatable price. These matters result from ineffectiveness of production and unsophisticated management of the dairy businesses. The problem with the direct sales by the farmers has been critical from the middle of the 90's until the beginning of this decade, as in some years, the quantity of milk sold directly to consumers has been twice the quantity of milk delivered to the dairies.

The data from Table 1 show that the predominant part of farms keeps 1-2 cows thus the dairy sector can be characterised as composed of small farms (keeping 1-2 heads) and all others thus it is difficult to say that sharp dualism exists, demarcating very small from large entities. Merely, the farms keeping more than 50 heads are really derisory. About 125 000 farms keeping dairy cows out of 150 000 farms are

Table 1
Dairy farm structure and herd size in cow sector

Dairy farm structure and herd Size	1990		1995		2000[1]		2005	
	Number of Herds	Number of Cows	Number of Herds	Number of Cows	Number of Herds	Number of Cows	Number of Herds	Number of Cows
1	101 563	101 563	199 223	199 223	101 184	101 184	95 708	95 708
2	85 470	42 735	46 660	93 320	50 544	101 088	29 896	59 792
3 to 5	176	792	7 909	39 545	13 620	48 396	15 254	51 863
6 to 10	0	0	1 071	8 246	5 964	36 976	6 122	39 181
11 to 20	0	0	269	4 277	1 364	16 504	2 876	33 361
21 to 30	0	0	46	1 035	989	21 341	633	17 534
31 to 50	0	0	49	2 107	389	12 886	414	18 299
51 to 100	158	12 324	11	869	312	17 784	391	26 035
101 to 200	1 290	200 051	4	660	29	3 596	32	4 416
over 200	872	259 856	5	1 250	5	1 445	4	1 511
Total	189 529	617 321	255 247	350 533	174 400	361 200	151 330	347 700

Source: NSI, MAF, Directorate "Agrostatistics"

[1] The data for 2000 is taken from the agricultural census'2003 because the particular livestock census in 2000 was not hold

bounded up to 1-2 heads. In the same fashion, the farms' pattern in other dairy sectors - buffalo, sheep and goat sector, is disproportional, as 147 731 holdings out of 176 185 ones rear up to 9 sheep, while regarding goat, 157 993 of 163 097 farms raise up to 9 heads. These figures confirm the adverse structural proportions and spell for serious challenges for dairy producers in terms of modernization of their farming, improving quality and efficiency of their production, adoption of contemporary and safety technologies, etc. It can be deduced that the lack of sustainable realization of the dairy production by farmers brings about reduction of farm size and the spread of semi-subsistent farms. A reduction in the number of small, self-subsistent households can be achieved mainly

by creating conditions for stabilization of milk purchase prices, certainty and profit from dairy livestock commensurate to other occupations, improvement of lifestyle in rural areas, etc.

The production and consumption of different types of raw milk have been considered in Table 2. As the figures in Table 2 show, the milk processed by dairy plants after 2001 scores a gradual growth, as the percentages varies from 54% to 57%, which is far better than the years at the end of the 90's and the very beginning of the new millennium, when for instance, the sheep milk purchased by dairies had slumped down to 12-15% of the total produced milk. The grave problem for production and marketing stage is still significant quantities of milk sold by farmers to

Table 2
Distribution of raw milk into different stages during the years

Distribution of produced milk into different stages	2000	2001	2002	2003	2004	2005
Dairy production /tons	1 655 000	1 351 000	1 466 000	1 459 000	1 551 000	1 508 000
On farm human consumption and direct sale /tons	998 000	541 000	602 000	551 000	621 000	591 000
Fed to stock /tons	125 000	60 000	64 000	55 000	87 000	58 000
Market Output (sales) /tons	532 000	750 000	800 000	853 000	843 000	849 000
Value of production /'000 €	455 000	422 000	315 000	285 000	338 000	358 000
Average producer price/ € per litre	0.17	0.18	0.17	0.16	0.2	0.22

Source: MAF, Marketing Directorate

direct consumers, which stands for a buffer to offset the low prices offered by dairy plants. The amount of milk directly sold by the farms has increased by 25% (up to 294 million litres) in 2004, while the amount of milk designated to satisfy the internal needs of households (human consumption) has not changed during the last couple of years. A significant increase of the direct sales of sheep and buffalo milk has been reported, respectively by more than 10 and 3.5 times in annual base 2004 to 2003. Although the supply of cow milk has increased more slowly juxtaposed with other products, its enhancement accounts for 18%.

Table 3 indicates the number of dairy animals in different milk sub-sectors and milk production contributed by them, as cow milk accounts for 85% of total production, while the goat milk is ranged on the second rank with around 7%. However, a large amount of the milk is produced on very small farms, 1-2 cows per farm. According to industry sources, currently 75% of the milk processed at dairy plants comes from such small farms.

These farms cannot invest and maintain the necessary hygiene, feeding, genetics, best practices and overall management leading to production of good quality milk. Small dairy farmers are not motivated enough to produce high quality milk since the milk purchase prices are based mainly on the volume- per litre, and only afterwards on quality characteristics. Milk quality is one of the major challenges to farmers in terms of responding to the EU quality standards. Currently the bulk of milk produced in the country has quality below the lowest quality standards of the EU. According to industry sources the amount/ number of micro-organisms is the most difficult requirement to meet. On average, the number of micro-organisms in milk should be reduced more than 3 times in order to meet the average EU criteria - currently, the bulk of milk contains on average 360 000 micro-organisms per millilitre and the EU standard requires 110 000 micro-organisms per millilitre. According to Mladenova (2005), about 80% of the milk derived in Bulgaria is characterized by low indicators regarding the quality thus

Table 3
Number of dairy animals and total milk production from these sub-sectors

Number of dairy animals and milk production by different sub-sectors		2000	2001	2002	2003	2004	2005
Production of cow milk	Dairy cows	433 820	419 312	368 178	361 846	368 719	347 754
	Total production / tons	1 347 546	1 368 386	1 305 912	1 308 525	1 344 750	1 286 909
Production of buffalo milk	Dairy buffalo	5 880	4 968	3 927	4 542	4 056	4 747
	Total production / tons	10 448	8 929	4 410	5 276	6 229	6 989
Production of sheep milk	Dairy sheep	1453971	1302790	1 379 061	1 278 759	1 351 212	1 222 492
	Total production / tons	103 412	93 746	93 479	88 679	117 682	105 057
Production of goat milk	Dairy goats	846 835	789 596	619 465	592 572	578 501	505 895
	Total production / tons	193 802	184 457	104 820	101 530	129 381	109 114

Source: MAF, Marketing Directorate

it is not compatible with the EU requisitions. Referring to the same statement, one of the reasons is the current size of farms and their technological level; because of fragmentation the adoption of machines and equipment is not expedient.

Additional efforts aimed at establishing economically viable farms should be a priority. Further incentives for breeding larger numbers of cows should be provided in order to encourage farmers to invest in expanding agricultural holdings. Government aid in the form of subsidies can be provided in order to foster the development of smaller farms and eventually help them meet higher quality requirements for the production of raw milk. The competitiveness of farmers can be improved by introducing training programs for cattle and cow breeders, focused on improving both the quality and the quantity of milk yield. Be-

sides, one of the cumbersome factors for the development of milk farming is the volatility of purchase prices. Although the average price of cow milk in 2005 was 0.22 Euro during the previous years it had dropped up to 0.10 Euro in some regions (Figure 1). This situation explicates the widespread and economic rationality, especially for small and middle size dairy farmers to practise direct sales, as in some years (particularly at the end of the previous and the beginning of this decade), the margin of direct sales is twice as high as the farm gate prices given by dairy plants.

According to a research conducted by the Institute of Agricultural Economics (Boyukliev and Popov, 2004) milk producers face the incorrect behaviour of processors - the milk is not paid on time, its quality is not properly valued and sometimes breaches of the stipulated provisions

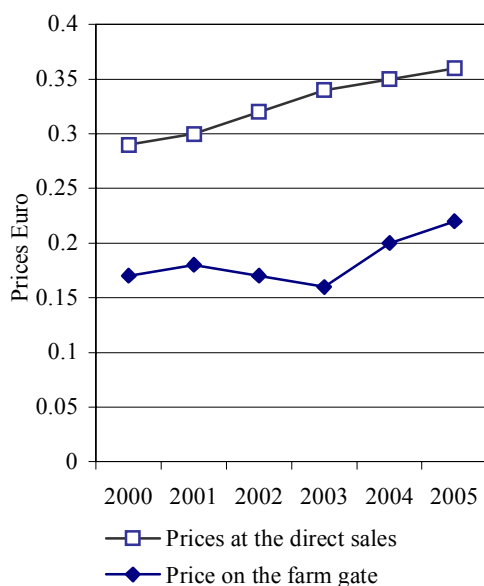


Fig. 1. Average cow milk prices on farm gate and at direct sales

are reported. The existing subsidies for high quality milk during the last years have not achieved their aim - middlemen and processors have just lowered the prices thus indirectly detracted from the premium of farmers. Moreover, according to farmers, part of the subsidies is allocated for illegal payments. The prime cost of milk is high due to the continuous increase of the prices of animal feed, fuels, chemicals, veterinary aid, etc. but at the same time the price of milk does not change adequately. Another problem is the bureaucratic attitude of the officials from the National Veterinary Department during the laboratory qualification of milk and the conduction of veterinary prophylaxis as well as the incorrect behaviour of the State Agency for Selection and Reproduction of Livestock during the performance of insemination. A significant problem arises from the inaccessibility of bank credits due

to the refusal to accept the animals and buildings in villages as bank collateral, which renders the participation in the investment programs of the State Fund "Agriculture" and SAPARD impossible.

Challenges in Milk Collection and Milk Processing Stages

According to the assessment report for the Bulgarian progress on the way of accession to the EU (EU Commission), released in 2004, the total number of registered milk collection stations countrywide was 3 500. All of these stations have executed measures for meeting the EU requirements for quality control. In this respect, the recent modification of the SAPARD program includes incentives to group together and to acquire cooling tubs and other equipment in order to ensure a good quality of their dairy production, prior to its supply to the collection stations. However, the major problem concerning the milk collection stations is that the number of these units is not sufficient to ensure convenient gathering of the whole milk yielded in the country. The structure of Bulgarian rural areas, especially in the mountainous regions, which represent prominent dairy production realms, is characterised as very disperse hence very often in a village more than one collection station should be available. Abreast with the number of collection units, the problem can be extended to the lack of proper testing of milk quality at the stations due to poor equipment. Frequently such testing is very basic and is not individual for a farm/farmer but rather a general testing is done for all milk delivered from the milk station to the plant. Another issue is related to the fact that only a limited number of milk collection stations have separate

collection of various types of milk - cow, sheep and goat milk. Frequently the milk is mixed. For this reason those processors who want to be more competitive by producing and selling higher value products from sheep and goat milk have more difficulties to procure raw materials. In most cases this means higher logistic, collection and testing cost since they need to collect directly from a large number of small farms (there is a small number of large commercial sheep and goat farms).

Due to general shortage of fresh milk and the competition for good quality milk frequently milk vendors (companies who visit villages and collect milk on certain days) have to compete on a territorial/regional basis. Due to comparable prices nationwide, other factors such as regular payments for delivered milk or additional support are also taken into account. As far as quality is concerned, advanced quality assurance can be introduced by conducting frequent quality checks and veterinary inspections, especially in remote rural areas. In order to achieve higher levels of quality performance, improvement of laboratory

facilities and modernization of sanitary equipment has to take place in many regional divisions of the National Veterinary Service.

The figures in Table 4 indicate a positive development in the number of dairy plants, which managed to receive license to export for EU and managed to introduce the sophisticated and quality-endorsed standards (HACCP and ISO), embracing the possibility to destine their production into different markets all over the world. The information provided by the "Agro-statistics" Directorate based on a survey conducted in 341 milk-processing factories shows that during 2004, the total number of running dairies has lessened by about 3% in comparison to the previous year. At the end of the year, 297 of them were still functioning, 22 had terminated their activity (because they did not meet European standards) and 22 were not working temporarily. For Bulgaria, some 80 dairies will be granted an entitlement from EU hygiene rules until the end of 2009, with products from these plants - amounting to roughly 30% of raw milk

Table 4
Number of processing factories and factories licensed for EU export

Progress of dairies in receiving license for export in EU zone	No. of processing units	Number of processing units which have met the requirements of the EU	Share of milk processed by processing units which have met the requirements of the EU -%-
2000 year	445	9	3.5%
2001 year	404	4	2.8%
2002 year	397	12	13.2%
2003 year	350	16	15.3%
2004 year	341	28	35.7
2005 year	303	54	49.2

Source: MAF, Directorate "Agrostatistics"

production - for the domestic market only and duly labelled as such. About 20 specific dairies will have the possibility of producing both "EU-compliant" and "non-compliant" milk, under certain conditions. The Sofia government has also negotiated a derogation until the end of April 2009 to market 2% fat milk as "semi-skimmed" and 3% fat milk as "whole milk" - for the Domestic market and/or non- EU markets.

Regarding dairy processing units, one of the greatest challenges for them is the milk quality, irreversible disconnection with the practice to corrupt the quality and technological criteria of their production and to improve the efficiency but not for the sake of quality. There are a number of issues related to these problems. Hence, the general shortage of milk forces most dairy plants to compromise with quality and search for other ways to improve milk quality, such as using additives, powder milk, whey, etc. For example due to extra water content (since the milk prices are based on delivered litres) in the raw milk, especially in milk at collection stations, processors often use additives, such as gelatine or starch to improve milk density. Frequently non-fat powder milk is added to the fresh milk to improve low protein content. However, these additives are not placed on the labels due to expected negative consumer reaction. In Bulgaria consumers are sensitive regarding any additives to milk, they prefer the taste of pure milk. Only in recent years due to diversified market sugar and fruit flavours mainly in yoghurt and less in fresh milk have become popular. Due to the quality issues the major processors who want to secure good quality and safety of their products work with their own selected network of farms. These farms are regularly inspected by the processors, technical as-

sistance and financial help is provided to the regular milk suppliers. Such policy is performed by market leaders Danone, United Milk Company, BBB group, TriBul, LB Bulgaricum, Zorov Ltd. and by other small dairy plants, most often on a regional basis.

The share of milk processed by dairies will increase and the number of dairies certified to work for EU market will rise up, as they possess good comparative advantages. The data in Tables 5 and 6 portrays that in the last couple of years, the dairy processing sector has recouped its position and tried to overcome the crisis with the loss of important markets from the socialistic period (especially, Arabic countries) and prohibitions for export in EU. The total export of sheep and cow cheese reached up to 11 300 tons in 2005, which accounts for about 62% of the dairy export. Together with the curd, the percentage of these goods grows up to 84%, estimated at 15 880 tons.

The export of dairy products is a vital need of processing enterprises, having in mind the contracted potential of the domestic market and the relatively weak purchase power of the average Bulgarian customer. Moreover, the activity and domestic market share of accurate and properly running dairy enterprises is inhibited either because of the presence of a still big quantity of very cheap, not-compliant with the standards products supplied by opportunistic dairies and the presence of direct sales carried out by the producers themselves. Regarding the export of dairy products, for many years, Bulgaria sustains as a net exporter in terms of value, and in 2005 the import of all dairy products amounted up to 41 million US\$, whilst the export was tallied up to 53 million US\$. Regarding the quantity, Bulgaria is a net

importer, and the import reaches up to 20 944 tons, while the export is estimated up to 18 804 tons. However, Bulgaria exports mainly cheese, which is much more expensive and utilizes significant milk inputs as long as the import is attributed chiefly to milk powder and concentrated milk. However, currently in terms of EU, Bulgaria represent a net importer as about 75% of our dairy import comes from EU (estimated to 31 million US\$) and merely 44% of our export is designated for EU. Therefore, it can be expected that in the future, Bulgaria will continue to rank as a net exporter in terms of value, regardless of the fact that the export to EU will be surpassed by import from other EU countries.

As the Figure 2 in the chart indicates, the predominant fraction of dairy import is due to cream, concentrated milk and milk

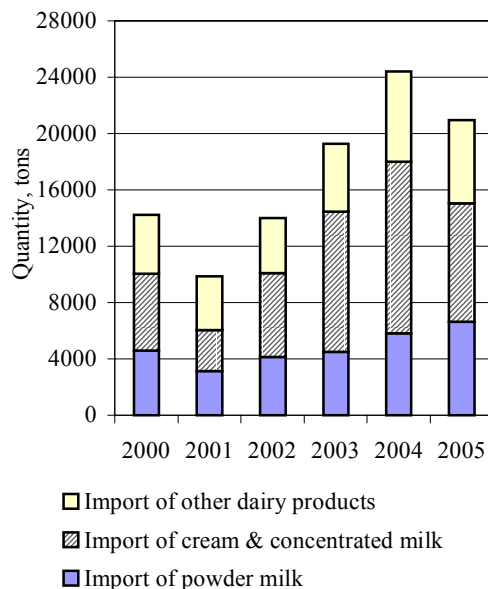


Fig. 2. Total dairy import distributed into different products

powder, which are used as input in yielding cheese, butter, yogurt, etc. Currently, the domestic processing sector does not dispose with enough power and technological know-how to substitute this import with internal production, as in future, in order to compete successfully with foreign companies, Bulgarian dairies should exert their efforts to improve the quality, packages and product varieties. Additional investments are needed to overcome these challenges, filtrating away the dairies that are not ready to follow the rules and designating more money for establishment of a stable upstream chain, guaranteeing the delivery of qualitative milk input. Many of the big milk processing companies have already launched investments in refrigerating equipment for their milk producing suppliers but this could hardly solve the problem. The dual situation in processing and manufacturing of dairy products is not a typical situation in the dairy sector, since particular companies have been striving to integrate and expand vertically through incorporating stages for milk collection, processing, product manufacturing and commerce, i.e. to enclose up all marketing stages in a structure. It turns out to be the most profitable scheme and takeovers, merges, joint ventures between different companies have been reported. Hence the existence of separate processing and manufacturing factories is liable to disappearance. Processed milk represents around 52.8% of the milk yielded during the year.

Prospects for Dairy Product Consumption

According to the detailed consumption prospects for dairy products as stated by an assessment report by IAMO (January

Table 5
Quantities, prices and revenues from the export of sheep cheese

Average sold quantities, prices and export revenues from sheep cheeses		2000	2001	2002	2003	2004	2005
Bulgarian brined cheese	Total export / tons	2 060	2 781	4 710	5 144	5 397	5 244
	Export prices / US\$ per ton	2 487	2 471	2 467	2 541	2 990	3 239
	Total revenues / "000 US\$	5 123	6 872	11 620	13 073	16 140	16 989
Cheddar cheese from sheep milk	Total export / tons	945	925	606	611	769	882
	Export prices / US\$ per ton	3 567	3 522	3 496	3 595	4 332	4 588
	Total revenues / "000 US\$	3 371	3 257	2 118	2 196	3 331	4 046

Source: MAF, Directorate "Agrostatistics"

Table 6
Quantities, prices and revenues from the export of cow cheese

Average sold quantities, prices and export revenues from cow cheeses		2000	2001	2002	2003	2004	2005
Bulgarian brined cheese	Total export / tons	1 329	1 625	2 889	2 912	3 367	2 977
	Export prices / US\$ per ton	1 420	1 425	1 435	1 468	1 875	1 937
	Total revenues / "000 US\$	1 887	2 315	4 145	4 274	6 313	5 767
Cheddar cheese from cow milk	Total export / tons	369	440	410	1 270	1 923	2 239
	Export prices / US\$ per ton	2 640	2 410	2 003	2 946	2 140	3 842
	Total revenues / "000 US\$	974	1 060	821	3 741	4 115	8 602

Source: MAF, Directorate "Agrostatistics"

2004), the positive trend in the dairy consumption assumed during the last years in all CEEC, will not occur in Bulgaria. The reasons for this conclusion can be attributed to the slight change of dairy consump-

tion during the observation period (covering the years before the research) and the fact that dairy products are a staple good, which is considered as necessary and consumption fluctuates in stable frontiers, rela-

tively independent of market indicators. Besides, the consumption of dairy products depends on the customer preferences and nutrition habits of people, e.g. a great number of customers are prone to substitute great quantities of different milk products for smaller quantities of more delicious and high quality food. However, according to the IAMO report, the consumption of cheese, which is a traditional national product (the brine and yellow kinds), is projected to rise gradually during the following years due to customers' preferences and raising income of the population. However, the data for cheese consumption reported by the Agro-statistic Department of MAF indicate a slow change of cheese consumption during the last 3-4 years per capita, which can be explained by lack of tangible increase of people's incomes dubbed with higher prices of particular products.

According to data presented by the National Statistical Institute (NSI), during 2005, the consumption of milk and dairy products has decreased by around 3% compared to the previous year. The average consumption amounts to 62.3 kg per capita (consumption during 2004 - 64.3 kg). The average annual consumption of fresh milk was subject to the most substantial decrease up to 22.2 litres per capita (-7.5%) compared to the years before 2005. The consumption of yoghurt has also decreased by 1.5% but in spite of this, its consumption still remains the highest - on average 25.7 kg annually per capita. The consumption of cheese, other dairy products and milk butter has retained the levels from the previous year, respectively - 10.0 kg, 1.3 kg and 0.5 kg per capita. During 2005, only the consumption of yellow cheese has increased by 8.3% as compared to the previous year - 2.6 kg per

capita. The production of packed fresh milk and yoghurts is directed mainly to the internal market. This product group will increase its variety and quantity sold if the life standard of the population increases. Another very perspective sphere is the production of milk butter and powder milk. After 2007, when Bulgaria is expected to enter EU, an intervention purchase of fresh milk must be undertaken, whenever the milk prices fall under the support level (according to the rules of the Common agricultural policy of EU) and it must be processed into durable milk products. At the moment the country does not possess with such production capacity. The production of cheese, especially from sheep and goat milk has the biggest perspective for a market realization on the internal and external markets. For this purpose it is necessary to build up the according system for the establishment of the milk gathering places.

Conclusion

In Bulgaria there are favourable conditions for the production of milk and dairy products. This is a natural prerequisite for the development of the processing and trade of these products. The overcoming of the weaknesses concerning the raw material requires the rationalization of the "milk producer - milk processor" relations, a better access to financial and information sources, efficient systems for knowledge dissemination, and extension services and qualification improvement. The creation of producers' groups through which part of the discussed problems would be resolved is of special importance (Boyukliev and Popov, 2004). The major conclusion concerning the condition of the milk sector is that it is not ready yet for an

active expansion at the European market space. The raw milk production does not correspond to the EU requirements. Decisive for the milk sectors' future is the accession to EU. Recently, it was reported that many small and the medium dairy farmers have intended to increase their capacity through enlargement of the dairy herds, new buildings, investments in new equipment (milking and cooling machines, tubs and others), establishment of different fodder basis, etc.

The problems are related to the existence and wide spread of non - regulated and non - organised milk marketing (vast practice of direct selling - peddling of milk from farmers to final consumers), along with a very divergent constellation of farms, predominated by small, self-subsistent and mixed livestock production structures. In comparison to the period during the 90's, at present the number of dairies has dropped to about 300, which has resulted in quality improvement of dairy merchandises, heightened efficiency of processing and manufacturing and better conditions for control by Veterinarian Offices and other Inspectorates. This assumes elimination of different negative factors from previous years. However, the problem with widespread obsolescent equipment on dairy farms is very painful and crucial, because it does not allow productivity enhancement as well as it suppresses the farm scale enlargement. Frequently, the farmers possess some equipment but they cannot use it because of technical faults and problems. To collect the milk in sufficiently hygienic conditions, to store it properly through the different stages and to deliver it to the final consumer is a real ordeal for the Bulgarian dairy industry. Recently, thanks to different support programs, such as SAPARD

and the State Fund "Agriculture", many Bulgarian milk delivery middlemen and processing companies have managed to provide and install cooling equipment, tubs, sophisticated tanks in the milk collection stations thus this problem is on way to be solved. However, this good practice covers a minor part of the producing territory and dealing with this matter will be the most crucial challenge for the possibility of the Bulgarian milk sector to join unrestrictedly the common European market. Moreover, in the next years, farmers will have to meet the high EU standards for milk quality, animal keeping, hygienic conditions in the barns and pens, so it will be a challenge for them and those who are ready to continue with this production will be forced to exert efforts for applying all measures and requirements.

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