Marketing of grains in Bulgaria
Topics to cover

- Background
- Market Structure
- Freight considerations
- Discount due to location
- Marketing strategy
- Alternative market strategies
Bulgaria – a refresher..

- Member EU from Jan 07
- Currency - LEVA (Pegged to Euro @ 1.95583)
- 2008 GDP of €34B - Services 50%, industry 44%, Agri 6%
- 110,910 sq km land area
- Over 50% - Hill or Mountain
- Land used in agriculture is 3.1m ha or 28% of land area

- 7.5 M People
- Capital City - Sofia
- 28 Oblasts
- Bulgarian - Cyrillic Alphabet
- Average Elevation – 480 M
- Ethnicity - 84% Bulgarians 9% Turkish 5% Roma 2% Other
### Bulgaria - cropped area and yields 2008/2009

<table>
<thead>
<tr>
<th>Crop</th>
<th>Harvested area (ha)</th>
<th>Production (tonnes)</th>
<th>Average yield, t/ha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>1,023,000</td>
<td>4,463,000</td>
<td>4.36</td>
</tr>
<tr>
<td>Barley</td>
<td>225,400</td>
<td>911,000</td>
<td>4.04</td>
</tr>
<tr>
<td>Corn</td>
<td>330,000</td>
<td>1,300,000</td>
<td>3.93</td>
</tr>
<tr>
<td>Sunflower</td>
<td>670,000</td>
<td>1,200,000</td>
<td>1.79</td>
</tr>
<tr>
<td>Rapeseeds</td>
<td>87,803</td>
<td>235,000</td>
<td>2.68</td>
</tr>
</tbody>
</table>

*Bulgaria 2008/2009 MinAg production data as of October, 2009*
Market dynamics – Cereal grains

Domestic Consumption
- Wheat
- Barley
- Corn

Domestic Consumption
- Wheat
- Barley

03/04 04/05 05/06 06/07 07/08 08/09 09/10

Mio. Tonnes
Domestic Market – Barley, Malting

150,000 tonnes per annum - 60 litres per head
The grain trade......the usual suspects

Glencore
Cremer
Nidera
Louis Dreyfuss
Cargills
Toepher (FOB only, Romania)
ADM

Hran Export
Wheat quality problems

*Eurygaster integriceps*

dърВеница

Not good reputation for quality milling wheat

No access to Middle Eastern, North African Markets

Low quality milling wheat, Spain, Portugal, Italy
### 2008 (calendar year) Wheat and Barley Exports

#### 2008 Harvest Wheat Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Tonnes (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>422</td>
</tr>
<tr>
<td>Djibouti</td>
<td>299</td>
</tr>
<tr>
<td>Spain</td>
<td>358</td>
</tr>
<tr>
<td>Romania</td>
<td>221</td>
</tr>
<tr>
<td>Greece</td>
<td>103</td>
</tr>
<tr>
<td>Sudan</td>
<td>68</td>
</tr>
<tr>
<td>Turkey</td>
<td>55</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,526</strong></td>
</tr>
</tbody>
</table>

#### 2008 Harvest Barley Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Tonnes (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>127</td>
</tr>
<tr>
<td>Syria</td>
<td>100</td>
</tr>
<tr>
<td>Romania</td>
<td>72</td>
</tr>
<tr>
<td>Israel</td>
<td>55</td>
</tr>
<tr>
<td>Greece</td>
<td>35</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>389</strong></td>
</tr>
</tbody>
</table>
Market dynamics – Oilseeds

Domestic Consumption

Sunflowers

Mio. Tonnes

03/04  04/05  05/06  06/07  07/08  08/09  09/10

Rapeseed
Sunflower
Logistics - How does 95% of grain move...?
Farming business

- Business only 3 years old
- Land bank 21,000 ha
- 2010 - 10,500 ha farmed
- Expansion claiming back rented area
- Objective 16,000 ha by 2012
- Three areas of concentration
Heavily partitioned plots - dispersed ownership
Market Dynamics

- ROMANIA
- SERBIA
- GREECE
- TURKEY
- DOMESTIC
- THE DANUBE
- DANUBE SHIP CANAL

Map showing the Danube River and its ship canal, with key locations and routes marked.
Export market access

PORTS
1. LOM
2. ORYAROVO
3. SOMOVIT
4. SVISTOV
5. RUSE
6. SLISTRA
7. VARNA
8. BURGAS
9. CONSTANTA

Barge to Constanta
$15.2/tonne

<table>
<thead>
<tr>
<th>Port</th>
<th>Distance</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOM</td>
<td>23 km</td>
<td>$1.78/tonne</td>
</tr>
<tr>
<td>ORYAROVO</td>
<td>376 km</td>
<td>$29/tonne</td>
</tr>
<tr>
<td>SOMOVIT</td>
<td>415 km</td>
<td>$32.3/tonne</td>
</tr>
<tr>
<td>SVISTOV</td>
<td>23 km</td>
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</table>
Western Australia Comparison – CBH Group

- Average cost to Kwinana: $22.4/tonne
- Entrance fee: $8.9/tonne
- Loading costs: $15.2/tonne
The Danube

- Sufficient draft 1,500 tonne Barges
- 3-6 barge convoys...depends water level
- Ocean vessels 3,000 tonne lower parts
- To Black Sea
  - River all way, Galati, Briala,
  - Danube Ship Canal to Constanta
- Access to Deep water & Panamax at significantly less than road (no rail)
Farming location in relation to the Danube
Example Danube FOB transaction – 2,500 t Lom

Agrisco SRL - Constanta (export >1M t)
Feed wheat - $131/tonne FOB Lom Port

Loading (port tax) $ 3.66
Weighbridge $ 0.42
Entrance fee $ 0.06
Draft survey/inspector $ 0.63
Weight & quality control agency $ 0.70
Haulage to Port (Lom – 30km) $ 1.94
TOTAL $ 7.41
Net $ 123.63
MATIF – reference for pricing, delivery points

- Rape
- Wheat
- Corn
- Sunflowers

Distances:
- Rape to Lille: 2,335 km
- Sunflowers to Paris: 2,560 km
- Sunflowers to Varna: 2,916 km
- Corn to Black Sea: 1,778 km
## Rape – freight costs if delivered MATIF

Lom to closest MATIF delivery point – Wurtzberg, Germany

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loading (port tax)</td>
<td>$3.66</td>
</tr>
<tr>
<td>Weighbridge</td>
<td>$0.42</td>
</tr>
<tr>
<td>Entrance fee</td>
<td>$0.06</td>
</tr>
<tr>
<td>Draft survey/inspector</td>
<td>$0.63</td>
</tr>
<tr>
<td>Weight &amp; quality control agency</td>
<td>$0.70</td>
</tr>
<tr>
<td>Haulage to Port (Lom – 60km)</td>
<td>$3.90</td>
</tr>
<tr>
<td>Barge from Lom to Wurtzberg</td>
<td>$35.28</td>
</tr>
<tr>
<td>TOTAL</td>
<td><strong>$41.65</strong></td>
</tr>
</tbody>
</table>

Forward sales quoted MATIF less freight, discount for rape $42 - 63/tonne
## Marketing 2010 – mix of commodities/storage

<table>
<thead>
<tr>
<th>PRODUCTION</th>
<th>Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feed Wheat</td>
<td>9,000</td>
</tr>
<tr>
<td>Milling Wheat</td>
<td>9,500</td>
</tr>
<tr>
<td>Rapeseed</td>
<td>12,900</td>
</tr>
<tr>
<td>Sunflowers</td>
<td>4,250</td>
</tr>
<tr>
<td>Winter Barley</td>
<td>2,500</td>
</tr>
<tr>
<td>Lentils</td>
<td>140</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>38,290</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STORAGE (6 locations)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td>14,000</td>
</tr>
<tr>
<td>Rented (long term)</td>
<td>5,000</td>
</tr>
<tr>
<td>Rented (pay as you go)</td>
<td>9,500</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>28,500</strong></td>
</tr>
</tbody>
</table>
Marketing.....the objectives

- **Sell in accordance with budget agreed with investors**
  - Wheat /Barley - €100
  - Rape - €245
  - Sunflowers - €200

- Risk management – use Futures and Options
- No bad debt and receivables
- Cash flow requirements
- Reconcile with rented storage (high costs)
What are the general problems?

- **Fraud**
  - Kick backs
  - Falsified contracts
  - VAT fraud
  - Manipulation of weights
  - Unofficial production.....Black market
- Default on forward contracts.....performance bond
- Credit.....**pre pay for all collections**
- Time wasting merchants/middle men
- Incorrect analysis.....eg. rapeseed oil content (FOSFA contract)
- Middle men influence with end users
Problems specific to this business
Marketing strategies - Rape

- Must move at harvest..no storage
- Forward contracts FOB Danube, Varna
- Too high risk to forward sell > 60%
- Hedge balance - MATIF contract
- Sales at harvest, buy back MATIF position, take margin with lower price
Marketing strategies – wheat

- Store, analyse full picture of quality….
- feed wheat
  - Opportunistic sales at harvest..price.?
  - FOB Danube/ (shorts in market)
  - Export to Greece
  - CIF Black Sea Port (Eastern cluster)
- Milling wheat, depending on quality
  - Local mills
  - Export to Greece
  - Use own transport to reduce freight
Marketing strategies – initiatives

- **Barley**
  - 2009 harvest 2500 tonnes barley direct to Ledinika Brewery
  - 2010, plan to deliver to their storage after cleaning …
  - However Problems with payment

- **Wheat**
  - Direct sales to Sofia Mel
  - Direct sales to Hypro,
    - Poultry business with 500,000 laying birds