

Marketing of grains in Bulgaria





Background
Market Structure
Freight considerations
Discount due to location
Marketing strategy
Alternative market strategies







Bulgaria – a refresher..



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- 7.5 M PEOPLE
- ✤ CAPITAL CITY SOFIA
- 28 OBLASTS
- ✤ BULGARIAN CYRILIC ALPHABET
- ✤ AVERAGE ELEVATION 480 M
- Ethnicity 84% Bulgarians 9% Turkish
 5% Roma 2% Other

- 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

Bulgaria - cropped area and yields 2008/2009

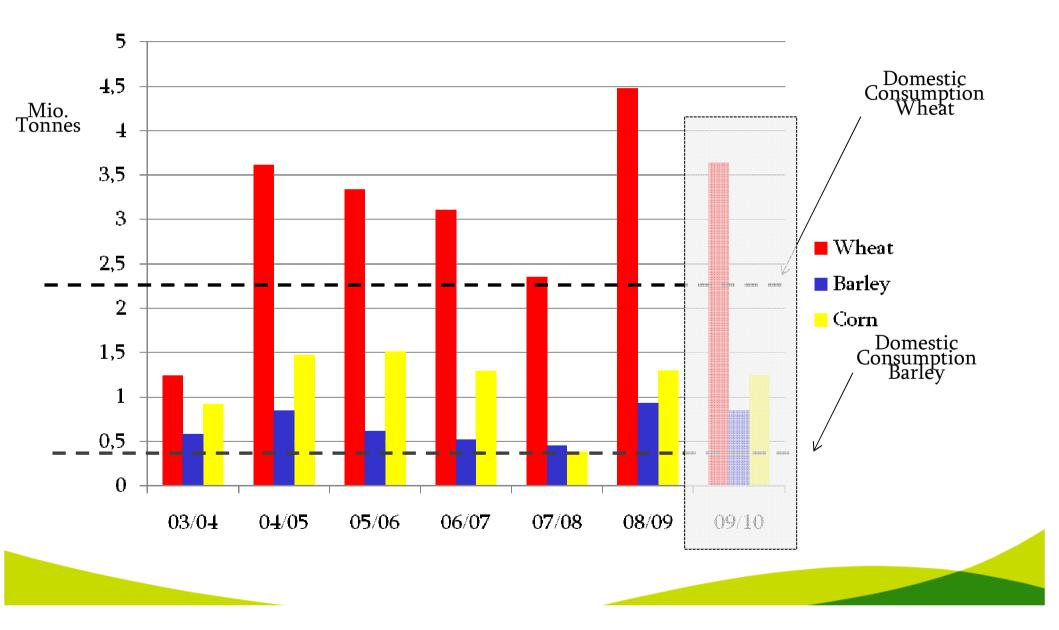


	Harvested	Production	Average
	area ha	(tonnes)	yield, t/ha
Wheat	1,023,000	4,463,000	4.36
Barley	225,400	911,000	4.04
Corn	330,000	1,300,000	3.93
Sunflower	670,000	1,200,000	1.79
Rapeseeds	87,803	235,000	2.68

Bulgaria 2008/2009 MinAg production data as of October, 2009







Market dynamics – Cereal grains

C E R E S AGRIGROWTH INVESTMENT FUND

Domestic Market – Barley, Malting

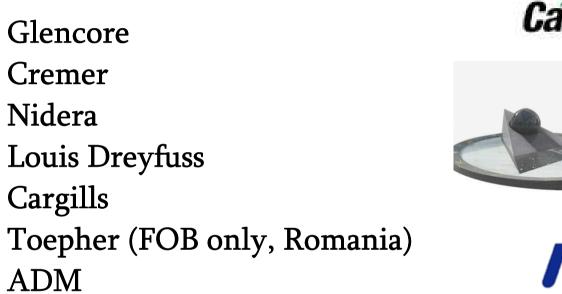


150,000 tonnes per annum- 60 litres per head



The grain trade.....the usual suspects











Hran Export





Wheat quality problems



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Not good reputation for quality milling wheat

No access to Middle Eastern, North African Markets

Low quality milling wheat, Spain, Portugal, Italy



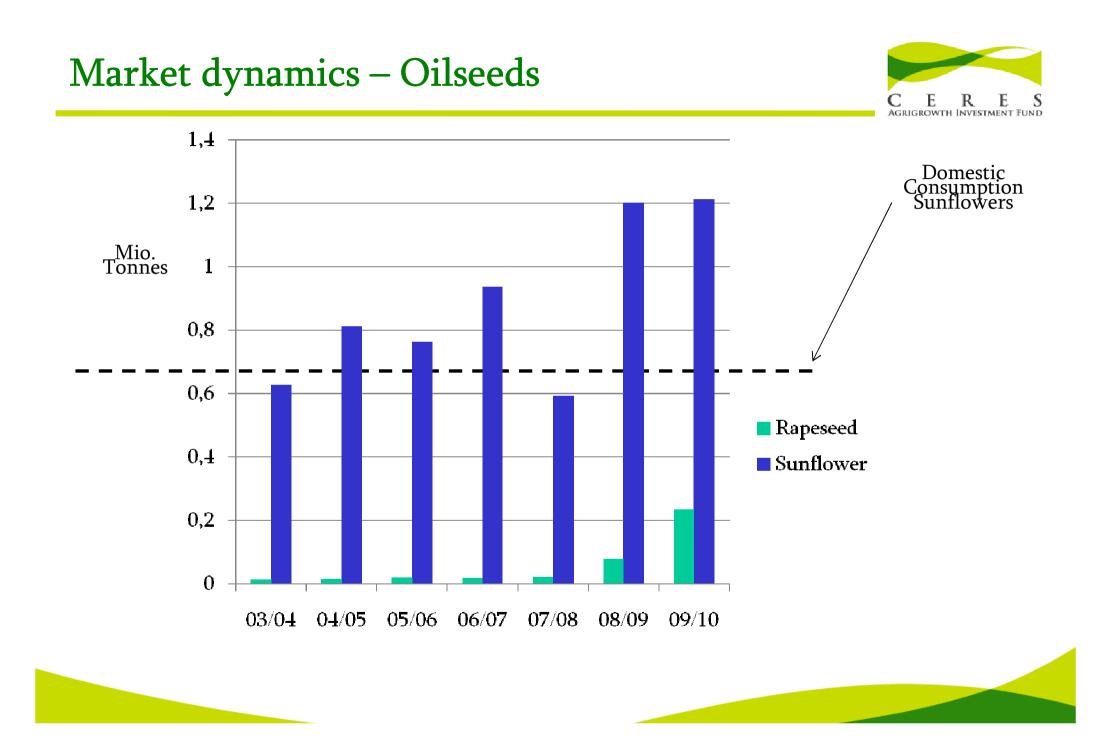


2008 (calendar year) wheat and barley exports



2008 Harvest wheat exports		2008 Havest Barley Exports	
000 tonnes			
Pakistan	422	Saudi Arabia	127
Djibouti	299	Syria	100
Spain	358	Romania	72
Romania	221	Israel	55
Greece	103	Greece	35
Sudan	68		
Turkey	55		
TOTAL	1,526	TOTAL	389





Logistics - How does 95% of grain move...?



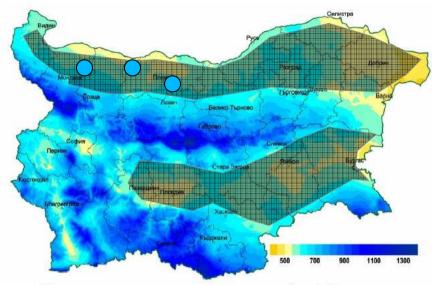






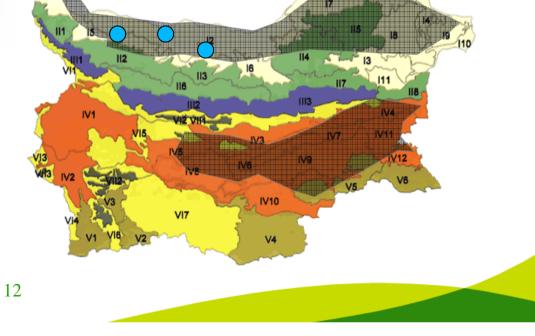
Farming business





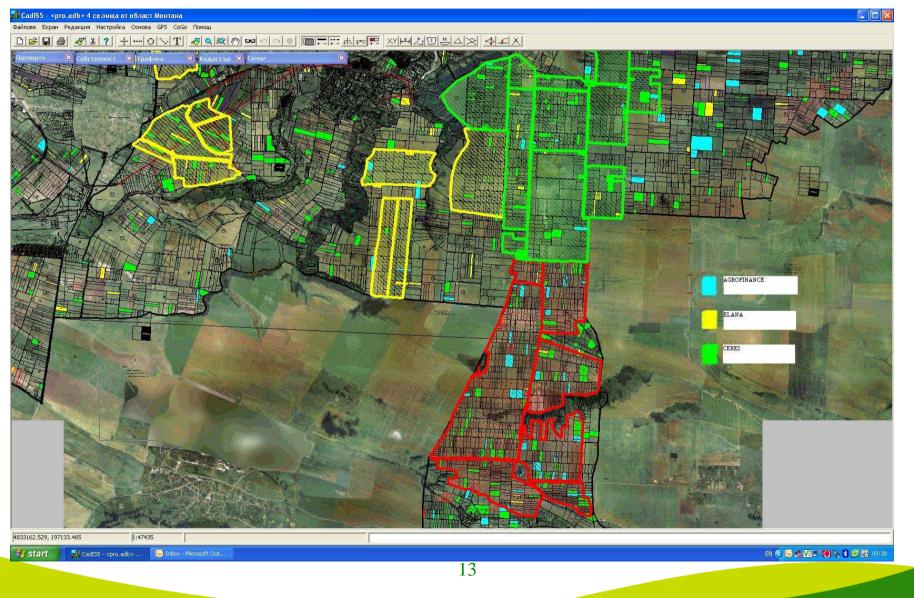
Пространствено разпределение на годишните валежи (в mm) в България

- 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







Western Australia Comparison – CBH Group



- Average cost to Kwinana -\$22.4/tonne
- Entrance fee
- Loading costs

-\$8.9/tonne

-\$15.2/tonne





- 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

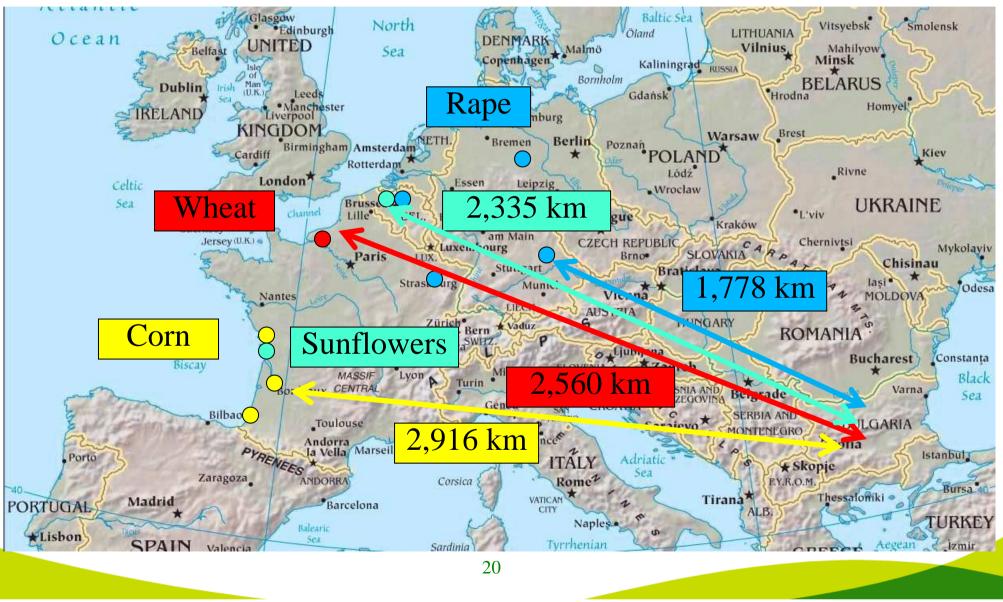
Loading (port tax)	\$ 3.66
Weighbridge	\$ 0.42
Entrance fee	\$ 0.06
Draft survey/inspector	\$ 0.63
Weight & quality control agency	\$ 0.70
Haulage to Port (Lom – 30km)	\$ 1.94
TOTAL	\$ 7.41
Net	\$ 123.63





MATIF --reference for pricing, delivery points







Lom to closest MATIF delivery point – Wurtzberg, Germany

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 – 60km)	\$ 3.90
Barge from Lom to Wurtzberg	\$ 35.28
TOTAL	\$ 41.65

Forward sales quoted MATIF less freight, discount for rape \$42 - 63/tonne



Marketing 2010 – mix of commodities/storage



PRODUCTION Feed Wheat Milling Wheat Rapeseed Sunflowers Winter Barley Lentils TOTAL

STORAGE (6 locations) Owned Rented (long term) Rented (pay as you go) Tonnes 9,000 9,500 12,900 4,250 2,500 140 38,290

28,500 14,000 5,000 9,500

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- 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

✤ <u>Barley</u>

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

♦ <u>Wheat</u>

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







