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Sugar

Sugar Annual Report

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Report Highlights:

Imports of sugar in 1998 declined 39% compared to 1997 due to large local stocks and stricter border control (which lowered smuggling). The forecast for 1999 imports is for a further decline because of reduced refined sugar exports and available stocks.

Processing of locally produced sugar beets remained controlled by the State as the majority of plants have been unable to survive.

Human and industrial consumption in 1998 increased 4.3% due to gradually increasing average income and privatization of food processing factories. The expectations are for a slight (1% - 2%) increase to 218,000 MT in 1999.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report

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Executive Summary

The sugar industry faced serious problems in 1998 related to lower sugar beet production, lower exports and the discovery of large scale corruption in the sugar trade. As in 1997, due to low sugar beet production and the high cost of processing, only one plant processed domestic product.

The AgOffice estimates that 1999 production will decline compared to 1998 due to expected lower local production and imports. Farmers will likely continue to replace sugar beets with grain and sunflower. Imports should be lower due to the reduction of illegal transactions and accumulated large stocks in the country.

1999 consumption (218,000 MT) is expected to be slightly higher than in 1998 (216,000 MT). In 1998, domestic consumption of centrifugal sugar increased 4.3% compared to 1997 due to higher demand for industrial use as a result of privatization of food processing firms and gradual increase in household income.

Raw sugar (especially from cane) holds the largest share of sugar imports because of the low tariff duty. Sugar imports in 1998 were about 234,000 MT (preliminary figures), or a reduction of 39% compared to 1997 record high imports of 356,000 MT of raw sugar and 25,000 MT of refined sugar. Lower 1998 imports were a result of reduction of illegal imports since August 1998, and already accumulated large stocks in the country. The major suppliers of raw sugar in 1998 continued to be Brazil with some new entrants such as Costa Rica and El Salvador. Columbia, Cuba and South Africa which were the largest exporters to Bulgaria in 1997, dropped out of the market in 1998.

Exports decreased slightly from 59,000 MT in 1997 to 56,000 MT in 1998 due to higher domestic demand and Bulgaria's lack of price competitiveness for refined sugar on the world market. The main export destinations in 1998 were Turkey, Macedonia, Uzbekistan and Greece.

PRODUCTION

In 1998, total sugar beet production decreased to 47,000 MT (estimates vary from 40,000 MT to 61,000 MT, according to some trade sources) and accounted for less than one percent of the total sugar supply and 2% of local consumption compared to 3% in 1997. Crop area decreased significantly to 3,500 HA (between 3,000 HA and 4,100 HA, according to some industry sources) due to unfavorable farm-gate prices and lack of market choice for selling the produce. Crop area and production estimates in the P, S and D for 1997 was revised downward based on final official data confirmed later by processing plants (see the Production Table #1 and P, S and D Table).

In 1998, utilization of inputs (equipment, fertilizers, and pesticides) was not sufficient. Sugar plants continued to provide seeds free of charge to farmers. Lack of sufficient machinery continues as only 50% are operational and about 75% of specialized sugar beet equipment needs

to be replaced. Sugar beet quality as well as sugar content was low. The 1998 recovery rate remained slightly above 10%.

CONSUMPTION

Domestic

According to the latest MinAg data, sugar beet consumed for feed is usually about 30,000 MT to 35,000 MT annually (35,900 MT in 1996 and 32,800 MT in 1997). Annual consumption of sugar beets for seeds is 100 MT and the loss is estimated between 400 MT and 800 MT. The remaining quantity shown in the P, S and D tables is used for processing into sugar. Estimates in the P, S and D table for 1997 were revised downward due to lower production, and for 1998 upward due to lower consumption for beets for alcohol.

There were different estimates for 1998 local consumption - from 200,000 MT to 250,000 MT of which only 4,800 were produced from local sugar beets at the plant in Gorna Oriahovitza. Out of the 216,000 MT human domestic consumption in 1998, the AgOffice estimates human direct consumption at 46,000 MT and industrial consumption at 140,000 MT (both figures are 15% and 16%, respectively, higher than in 1997) and 30,000 MT exported illegally or unknown stocks. The amount of illegally exported sugar declined due to strengthened border control. Consumption both for industrial and human use increased 15%-16% in 1998 due to privatization and revitalization of food-processing industry and higher real average income (see Table#2).

Information about production of HFCS is not collected by the National Statistics or the MinAg. It has been confirmed by trade that HFCS - 42 and HFCS -55 are produced in the country by an US/Belgium-Bulgarian joint venture. The only available statistical data shows an annual production of glucose in 1998 - 6,808 MT (6,314 MT in 1997), and fructose and iso-glucose - 35,599 MT in 1998 compared to only 14,095 MT in 1997.

Processing

The capacity of the sugar processing industry is 700,000 MT of refined sugar or 24,500 MT sugar beets and 3,000 MT sugar cane per 24 hours. In a normal purchasing campaign of about 100 days, the plants can process 2,450,000 MT sugar beets and produce close to 300,000 MT of refined sugar. As in 1997, in 1998 plants used 98% imported raw cane sugar.

The processing of locally produced sugar beets in 1998 (only one sugar plant, Gorna Oriahovitza, was able to process local sugar beets) and currently is basically controlled by the State (75% state stake, see Table #3). The plant offered a farm-gate price of about US\$25/MT and seeds free of charge (at the value of US\$2-3/MT). This price was higher than 1997 average price of US\$20/MT but still not sufficient to stimulate producers. In addition, farmers received a bonus of US\$5/MT. Producers were paid about US\$400/HA (upon 13.3 MT/HA yield in 1998) which was higher than the gross return in wheat and sunflower production. These farm-gate prices, however, remained lower than in other countries in the region (Romania and Slovenia - US\$54/MT and Hungary - US\$80/MT). Another sugar plant (Dolna Mitropolia) also tried to attract local farmers offering US\$28/MT depending on the sugar content for beets exceeding 10% sugar

content. This price, however, was not sufficient for farmers to plant sugar beets in this region.

In 1998, the largest and most attractive processing plant in Gorna Oriahovitza was announced for cash privatization. The deal, however, failed since the purchaser did not pay in time. The current status of the sugar processing plants according to the MinIndustry is shown in the Table #3.

Prices

See “processing” for farm-gate prices.

Similar to previous years, sugar plants preferred to use imported raw sugar which when processed into refined sugar brings a reduction of about US\$60/MT in production costs compared to the processing of sugar beets. It is partly due to the low import duty of 5% for 250,000 MT TRQ which is practically sufficient to cover the needs of the market. According to some independent experts, the profit margin upon processing of imported raw sugar is about US\$200/MT and 27% higher if the taxes and duties are not paid. Therefore, the domestic price of refined sugar depends mainly on the price of imported raw sugar.

Like in 1997, in 1998 local prices exceeded international prices due to monopolistic imports and processing. By February 1999, the price of refined sugar lowered to 810,000 Bleva/MT (US\$462) and even to 690,000 Bleva/MT (US\$394) which was a significant reduction compared to prices at the end of 1998 (over 900,000 Bleva/MT or US\$565/MT). At that time, international sugar prices, reportedly, were US\$400/MT (“Reuters” data).

Retail prices - see the Price Table at the end of the report.

STOCKS

The estimate for 1997 ending stocks is much higher compared to 1996 due to higher imports. Ending stocks in 1998 were estimated at 118,000 MT due to lower exports as a result of stagnation on the international market.

TRADE

The data in the "centrifugal sugar" trade matrices for 1997 and 1998 includes raw sugar from cane and sugar beets and refined sugar. Trade data for 1998 is based on actual data for the first nine months and "Other" is the amount extrapolated to equal the remaining three months of the year.

See the 1997 final data in GAIN trade matrix and 1998 trade matrix in Table #5.

In 1997, the major exporters of refined sugar to Bulgaria were Germany and Brazil; of raw cane sugar - Cuba, Brazil, Columbia and South Africa Republic; and of raw beet sugar - the Ukraine. In 1998, raw cane sugar was imported mainly from Brazil, Costa Rica and El Salvador. Cuba and Columbia were for the first time not among the largest suppliers.

In 1997, Bulgaria exported white sugar to Greece, Turkey, Turkmenistan, Uzbekistan and Armenia. In 1998, exports were destined for traditional export markets such as Uzbekistan, Turkey, Greece, Russia and Macedonia. Exports were 5% lower due to low price competitiveness and higher local consumption.

At the end of 1998, a large firm was indicted for fraudulent importation of sugar. Allegedly, this firm has imported significant amounts of raw sugar through underinvoicing and false invoicing. Reportedly, this has occurred over the last five years allegedly with the support of some Government officials. Three sugar trading companies were blamed in uniting in a cartel to control sugar trade/processing in the country and price monopoly. The companies were blamed in illegal imports of 130,000 MT of raw sugar annually or total about 306,000 MT for the period 1994-1998. It has been estimated that the budget loss is about 52 billion leva (US\$30 million). This firm currently supplies about 50% of the local refined sugar market (about 100,000 MT) from its processing plants (privatized in the last five years).

POLICY

Production Policy

In 1998, there were two Government programs for assisting sugar beets producers: a soft credit line and a bonus (direct subsidy) to farm-gate prices released by the MinAg state fund "Agriculture" (MinAg).

The soft credit line for 1998 which subsidizes 50% of the interest required sugar beet farmer to contract with licensed MinAg sugar plants. The credit covered purchases of fertilizers, herbicides, insecticides, fuel and mechanization service fees (no coverage labor costs). The credit line was released in three tranches of 310,000 Bleva/HA, 200,000 Bleva/HA and 170,000 Bleva/HA or total 680,000 leva/HA (US\$389). The deadline for repayment of loans was Nov.30. The direct subsidy or a bonus per metric ton was 8,284 Bleva/MT (about US\$4.7 - 5.0).

In the beginning of 1999, the GOB fund "Agriculture" announced its new program for financial assistance to sugar producers which is very similar to the 1998 program. The approved allocation is 2.125 billion leva (US\$1.2 million) for bonuses of 8,500 Bleva (US\$4.8) per each produced and contracted metric ton of sugar beets. In addition, the fund has the same soft credit line for sugar beet producers as in 1998 (the total allocated resource should be 6.8 billion leva (US\$3.8 million).

Due to allegation of corruption in the sugar processing and trade industry in August 1998, the MinAg and MinTrade were planning a Law on Production and Trade in Sugar which would include an increase in farm-gate prices which are currently between US\$25-30/MT compared to the US\$55/MT in the EU. The other step in the law should be equal import duties for refined and raw sugar and introduction of a concession fee on imports of raw sugar which is destined for processing in local plants. To date, however, none of these measures or any draft law has been introduced or discussed by the GOB.

Trade Policy

In 1999, there was a decrease in import duties for beet sugar for processing, and white refined sugar. General and preferential duties for sugar were unified in one general duty - see Table #4.

In 1999, the MinTrade introduced an import quota of 250,000 MT raw cane sugar (HS#1701 11) at a 5% import duty.

There is a quota for imports from EU countries for refined sugar (HS#1701 99), 21,888 MT at 34% import duty. Sugar is not subject to any preferences in agreements with CEFTA and Turkey.

Table #1.

Production Table for the Period 1996 - 1998			
Years	1996	1997	1998
Crop Area, HA	8,375	5,090	3,500
Private (%)	7,512 (90)	4,800 (96)	3,400 (97)
Coops (%)	863 (10)	200 (4)	100 (3)
Yields, MT/HA	10.3	15.6	13.3
Private	10.1	15.7	13.4
Production, MT	86,580	79,500	46,550
Private (%)	75,438 (87)	75,360 (95)	45,560 (98)
Coops (%)	11,142 (13)	4,140 (5)	990 (2)
Source: National Statistics Institute, Crops Statistics Department.			

Table #2.

Consumption of Sugar in Kilograms per Capita in the Peak Demand Time in 1997 and 1998		
Years	1997	1998
July	3.8	4.6
August	4.8	4.6
September	4.4	4.7
Source: National Statistical Institute		

Table #3.

Current Capacity and Ownership Status of Processing Plants			
Plant	Town	Capacity, MT/24 hours	State stake, in %
Zaharni zavodi AD	Gorna Oriahovitza	4,000	75.0
Zahar- Bio AD	Rousse	3,000	32.57
Bartex AD	Kameno	5,000	19.0
Kristal-91 AD	Plovdiv	1,500	40.0
Bulgarska Zahar AD	Dolna Mitropolia	6,000	75.0
Lomska Zahar AD	Lom	3,000	90.9
Bejpar Sugar AD	Devnia	2,000	20.0
Note: The plant in Lom will be liquidated since it has been shut down over the last six years. The plant in Dolna Mitropolia has not been in operation significantly over the last two years due to the lack of raw materials. The plants in Rousse and Plovdiv operate at a very small scale with frequent work stoppages. The same was the situation with the plants in Devnia, Kameno and Rousse.			

Table #4.

Current Level of Import Duties According to 1999 Trade Regime			
HS Number	Description	General Duty	Preferential Duty
12 12 91 00 0	Sugar Beets	15%	11%
12 12 92 00 0	Sugar Cane	10%	7%
17 01 11 00 0	Raw Cane Sugar	50%*	
1701 12 00 0	Beet Sugar	196 ECU/MT*	
1701 91 00 0, 1701 99 10 0	White Refined Sugar	292.4 ECU/MT*	
Note *: These duties do not apply to countries members of the EU since these imports are subject to bilateral trade agreements. Preferential duties apply to “developing” countries including Brazil, Cuba, Columbia, El Salvador etc.			

Table#5.

Bulgarian Imports and Exports of Sugar in 1998 in MT			
Countries	Exports	Countries	Imports
Greece	3,400	Brazil	91,000
Russia	2,500	Costa Rica	46,000
Switzerland	3,900	Salvador	32,000
Turkey	7,900	Germany	4,000
Macedonia	7,700	Czech Republic	2,000
Uzbekistan	11,400		
Yugoslavia	3,800		
Others	15,400	Others	59,000
Total	56,000	Total	234,000

Centrifugal Sugar PSD

PSD Table						
Country	Bulgaria					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	60	30	34	151	14	118
Beet Sugar Production	9	6	11	5	8	5
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	9	6	11	5	8	5
Raw Imports	285	356	315	234	333	230
Refined Imp.(Raw Val)	3	25	4	0	5	0
TOTAL Imports	288	381	319	234	338	230
TOTAL SUPPLY	357	417	364	390	360	353
Raw Exports	36	1	40	1	35	1
Refined Exp.(Raw Val)	125	58	130	55	120	55
TOTAL EXPORTS	161	59	170	56	155	56
Human Dom. Consumption	160	205	178	214	188	216
Feed Dom. Consumption	2	2	2	2	2	2
TOTAL Dom. Consumption	162	207	180	216	190	218
Ending Stocks	34	151	14	118	15	79
TOTAL DISTRIBUTION	357	417	364	390	360	353

Sugar Beet PSD

PSD Table						
Country	Bulgaria					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	0	5	0	4	0	4
Area Harvested	0	5	0	4	0	4
Production	0	80	0	47	0	45
TOTAL SUPPLY	0	80	0	47	0	45
Utilization for Sugar	0	50	0	44	0	40
Utilizatn for Alcohol	0	30	0	3	0	5
TOTAL UTILIZATION	0	80	0	47	0	45

Retail Price of Centrifugal Sugar

Prices Table			
Country	Bulgaria		
Commodity	Centrifugal Sugar		
Prices in	Bleva	per uom	kilogram
Year	1998	1999	% Change
Jan	1080		-100.00%
Feb	1092		-100.00%
Mar	1080		-100.00%
Apr	1078		-100.00%
May	1063		-100.00%
Jun	1011		-100.00%
Jul	1059		-100.00%
Aug	1115		-100.00%
Sep	1126		-100.00%
Oct	1117		-100.00%
Nov	1096		-100.00%
Dec	1073		-100.00%
Exchange Rate	1750	Local currency/US \$	

Import Trade Matrix, 1997

Import Trade Matrix			
Country	Bulgaria		
Commodity	Centrifugal Sugar		
Time period	1997	Units:	metric tons
Imports for:			1
U.S.	0	U.S.	
Others		Others	
Brazil	209574		
Columbia	39133		
Cuba	94530		
South Africa Rep	32695		
Germany	1935		
Ukraine	1098		
Belgium	909		
Total for Others	379874		0
Others not Listed	1471		
Grand Total	381345		0

Export Trade Matrix, 1997

Export Trade Matrix			
Country	Bulgaria		
Commodity	Centrifugal Sugar		
Time period	1997	Units:	metric tons
Exports for:			1
U.S.	0	U.S.	
Others		Others	
Greece	5686		
Turkey	37194		
Turkmenistan	2140		
Uzbekistan	3424		
Russia	1377		
Georgia	1883		
Armenia	3058		
Macedonia	153		
Total for Others	54915		0
Others not Listed	3945		
Grand Total	58860		0