

Situation of the Sugar Industry and a Financial Solution

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In the late 1990s, the sugar industry was supported strongly by the Government and developed fast. It created a lot of new jobs and helped turn large areas of barren and arid soil in mountainous regions into sugarcane fields. The sugar output met the market demand in several years. However, financial problems with this industry seemed unsolvable because it has become a burden on the national budget. Most of sugar mills are owned and run by the central or local governments besides some joint ventures and foreign-invested ones. In the past few years, the central and local budgets spent a lot of money to help the industry deal with changes in the exchange rate, shortage of working capital, arrears with the tax payment or bank interest. The amount of money supplied by the public fund reaches billions of đồng a year now and it tends to increase in the coming years. This has become a serious problem when the budget deficit is bigger and the overall reform in the public sector is carried out.

Up to now, there are 44 sugar mills with a total installed capacity of 82,950 tonnes of sugarcane a day, or an annual output of 1.2 million tonnes of sugar. Some 40 provinces have areas specialized in sugarcane planting. In the crop 2002-03, the sugarcane area reached 315,000 hectares; and 157,827 of them was invested by sugar factories. The sugarcane out-



put in this crop was 15.7 million tonnes. Up to April 2003, the industry produced 812,000 tonnes of sugar. This figure is expected to rise to 900,000 by the end of the crop.

In comparison with the previous crop, the sugarcane output supplied to sugar mills fell by over 30% with the result that the sugar output was lower, waste rose by 2%, sugar content reduced and the selling price fell by 3% compared with the production cost of centrally-run sugar mills and by 2% in locally-run ones. In addition, the amortization and bank interest payments account for some 50% of the production cost. In the next crop 2003-04, there is no sign of improvement in these indicators.

According to the French AFD, the construction cost and amortization

in the Vietnamese sugar industry is 3 times higher than that in Thailand, 1.86 times compared with India and 2.89 times with Australia. According to the Vietnamese Sugar Association, the low yield of sugarcane and sugar content in Vietnam leads to wastage of 11 or 11.5 sugarcane/sugar compared with the acceptable limit of 9 - 10 sugarcane/sugar.

These factors make the sugar production cost in Vietnam higher. And as a result, local sugar mills won't be able to compete against foreign rivals when the domestic market is opened as required by the AFTA agreement in the near future while they are running into debt.

The Ministry of Finance divided 44 sugar mills into three groups based on their 2002 financial statements:

- Group 1 includes sugar mills that have ability to develop, compete and integrate into the world market without support from the Government. There are only eight mills in this group: La Ngà, Nagarjuna - Long An, Việt Đà, KPC, Phú Yên, Bourbon-Gia Lai, Tate & Lyle- Nghệ An, and Bourbon-Tây Ninh. They usually operate at 80% of their installed capacity.

have small loan capital, low production cost (some VND4,000 per kilo of sugar, lower than the national average and equal to the market price in surrounding countries) and stable sources of raw materials.

This group could develop in the near future although they still suffer losses now. The Government had to exempt them from the VND260 billion worth of the VAT payment generated in 2001-03.

- Group 2 may exist but faces great difficulties and is badly in need of support from the Government in the years 2002-05. This group includes 14 sugar factories: An Khê, Trà Vinh, Bình Dương, Sóc Trăng, Cao Bằng, Tuy Hòa, Hòa Bình, Quảng Phú, Bình Định, Nông Cống, Ninh Hòa, Tây Ninh, Hiệp Hòa and the

Tây Ninh Raw Sugar Mill. They usually operate at 60% - 80% of their capacity. Their financial situation is improved remarkably and they could repay debts in the near future. Their average production cost in 2002 was VND5,384 per kilo (lower than the national average but higher than the price of imported sugar). Their target for the year 2005 is to reduce the production cost to VND4,000 per kilo.

In the years 2003-05, the Government planned to give VND1,100 billion to this group (not including tax cuts and debts written off). Measures taken are: the VAT payment generated in 2001-03 was cut, the interest rate on VND loans was reduced to 3% a year (compulsory loans after Jan. 1, 2003 included), loans in foreign exchange is converted into loan in the domestic currency, difference in the interest rates and exchange rates taking place before Dec. 31, 2002 was covered by the Government, and more funds will be added to their working capital.

- Group 3 includes 22 factories that need restructuring (merger, dissolution, bankruptcy, etc.). They are Quảng Ngãi Sugar Company, Việt Trì Sugar-Liquor - Beer Com-

pany, Phổ Phong, Khánh Hội, Thới Bình, Bến Tre, Kiên Giang, Sông Lam, Kon Tum, Quảng Nam, Quảng Bình, Sơn Dương, 333, Trị An, Sông Côn, Khánh Hòa, Cam Ranh, Sơn La, Tuyên Quang, Cần Thơ, Vị Xuyên, Phụng Hiệp, Bình Thuận, Daklak, and Biên Hòa Sugar Mills. The operation capacity of these mills and companies is lower than the national average. Their machinery is obsolete and wastage is high and they have suffered losses since establishment and had no ability to develop reliable supplies of raw material. Although the State has given financial support since 1999, they couldn't reduce the production cost and debts. Bank interest payment has become a very heavy burden to them and the State as well.

To consolidate these concerns, the State has to spend some VND5,000 billion this year, including 3,277 billion in debt repayment and 1,689 billion to cover losses. In the coming years, from now to 2005, the national budget has to provide them with financial support incessantly.

According to the Ministry of Agriculture and Rural Development, there are nine causes (four internal

and five external ones) that bring the sugar industry capitalized at some US\$700 million to the brink of ruin. The most important one is their dependence on the loan capital that has the term of seven years only while the amortization requires from seven to 12 years.

According to a report from the Ministry up to Dec. 31, 2002, the sugar industry suffered a total loss of VND2,753 billion (2,048 billion by local ones and 704 billion by foreign-invested ones.)

Regarding its liability, the industry was in debt to the tune of VND5,008 billion by the end of 2002, including 4,139 billion in principal and 869 billion in interest and guarantee fee. In 2001-02, the industry failed to repay foreign debt and the Bank for Agriculture and Rural Development had to repay VND485 billion and provide them with compulsory loans. Moreover, none of them could repay debts to the ADB whose accumulated interest had passed VND600 billion.

Thus, the sum of money needed for support the Group 3 amounts to VND5,000 billion. If the Government wants to support all three groups, it has

to secure some VND7,000 billion from all possible sources (national budget, bank loan or the Fund for Development Support). This problem seems unsolvable when the Government is facing huge balance of payment deficits while banks and the Fund for Development Support could only supply small medium- and long-term loans. If the situation isn't improved, debts couldn't be repaid and commercial banks have to pay foreign debts when due. At the end of September 2003, the Government had a meeting with the leadership of the Ministry of Finance, the SBV and the Ministry of Agriculture and Rural Development to discuss this problem.

In my opinion, the Government had better dissolve and sell sugar mills of the Group 3 as soon as possible. Chinese and Cuban experience in this issue is very useful. As for sugar mills of the Group 2, they must work out plans to overcome losses within two or three years. In addition, necessary measures could be taken to develop reliable supplies of raw materials for mills of the Groups 1 and 2 as soon as possible. ■

