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Russian Federation

Sugar

Semi-Annual Report

2006

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Report Highlights:

Sugar beet production and processing are increasing in the Russian market as high world sugar prices dampen trade for cane sugar. Sugar beet production is expected to reach record levels in 2006. Companies are expanding sugar beet processing capacity in place of cane sugar. Processed sugar imports from Belarus and Ukraine are under ongoing review.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
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Executive Summary

Sugar beet acreage increased 18 percent in 2006 over the 2005 season. High world prices for raw sugar impacted domestic prices and significantly dampened imports. Sugar companies are planning to expand beet processing capacity of mills in place of cane sugar. Russia continues to investigate imports of white sugar from Belarus. Discussions are planned to consider resuming shipments from Ukraine, potentially in CY2008. Russia excluded beet sugar from the free trade regime with Ukraine until CY2009. Consumer trends in Russia show decreased sugar consumption as households are using less sugar to preserve food.

Production

Sugar beet acreage increased 18 percent in 2006 over the 2005 season. Harvesting began earlier than average due to high temperatures. As of August 24, 326,400 hectares had been harvested. Russia's Ministry of Agriculture expects to harvest 22.5 MMT of sugar beets, which is 1.5 MMT more than last year. Yields in Stavropol and Krasnodar are 43 MT/ha and 34 MT, respectively. In Kursk, the beet yield increased 8 MT/ha to 31 MT/ha in 2006.

Sugar companies are striving to completely switch to production of beet sugar from low-margin raw sugar. Companies have set goals to vertically integrate and expand production and processing of sugar beets.

Consumption

Sugar consumption for household fruit processing in the summer of 2006 was lower in comparison with 2005 due to a decline in fruit production. Moreover, the population shows a longer-term trend of decreased homemade preserves.

Trade

Russia imported 2.4 MMT of raw sugar and 80,000 MT of white sugar October 2005-July 2006.

In CY2006, imports of raw sugar dropped by almost 60 percent, to only 2 MT in a seven-month period. However, due to higher prices, the value jumped to \$835.5 million from \$624.7 million a year earlier.

Table 1. Russian Imports, Quantity January 2003– December 2005

	2003	2004	2005
SUGARS	4,600,944	2,893,409	315,4214
CANE/BEET, SOLID FORM	4,247,785	2,783,316	3,031,382
CONFECTION, NO COCOA	51,206	58,866	65,966
OTHER SUGARS	301,705	51,227	56,865
MOLASSES FROM SUGAR	247	0	--

Source of data: Customs Committee of Russia

World Trade Atlas

Prices

Domestic sugar prices were relatively stable between January 2004 and December 2005. Beginning in January 2006, rising world prices on white sugar placed upward pressure on

domestic prices. After the 2006 processing season began, prices declined slightly. In areas that produce sugar beets, like Krasnodar, white sugar prices are lower than in Moscow.

Table 2. White Sugar Wholesale Prices in the Russian Federation, RUR/kilo

Date	Moscow	Krasnodar
2004		
January	14.20	13.60
February	14.10	13.50
March	14.80	14.10
April	14.90	14.30
May	15.15	14.50
June	15.30	14.50
July	15.15	14.60
August	16.90	16.00
September	15.85	15.00
October	15.90	14.40
November	14.30	13.40
December	14.65	13.70
2005		
January	14.45	13.60
February	14.45	13.55
March	15.10	14.30
April	14.95	14.20
May	15.20	14.50
June	15.65	15.05
July	15.65	15.10
August	16.00	15.20
September	14.80	13.70
October	15.10	13.90
November	14.60	14.00
December	14.70	14.30
2006		
January	17.50	16.60
February	20.50	19.50
March	25.00	22.20
April	20.40	19.50
May	19.40	18.60
June	19.60	18.60
July	21.35	20.30
August	22.40	21.40
September 1	21.60	18.70
September 29	18.20	16.80

Source: ISCO-I Sugar Monitoring; www.isco-i.ru

Russia and Ukraine are looking to resume sugar exports

Ukraine discontinued sugar exports due to Russia's decision to exclude beet sugar from the free trade regime through CY2009. Discussions to resume shipments, potentially in CY2008, are being planned.

Table 3. Calculated cost of sugar production in 2006

Polarization	98,50%	98,70%	98,70%	98,70%	98,50%	98,50%	98,70%	98,70%
Polarization Premium (1.50+1.25+1,00), in %	3,25%	3,45%	3,45%	3,45%	3,25%	3,25%	3,45%	3,45%
White sugar output including losses (p - 2,4%)	96,20%	96,40%	96,40%	96,40%	96,20%	96,20%	96,40%	96,40%
IMPORTS	jan.06	feb.06	mar.06	apr.06	may.06	jun.06	jul.06	aug.06
Raw sugar price (NY 11) c/lb	16,19	17,94	17,08	17,21	16,90	15,27	15,86	14,50
Raw sugar price (NY 11), USD/MT	356,9	395,5	376,6	379,5	372,6	336,6	349,6	319,7
CIF Black Sea Premium, USD/MT	21,7	23,6	30,9	24,3	30,0	39,9	39,8	35,0
Polarization Premium, USD/MT	11,6	13,6	13,0	13,1	12,1	10,9	12,1	11,0
Cost of raw sugar CIF Black Sea, USD/MT	390,1	432,7	420,5	416,9	414,7	387,4	401,5	365,7
Customs duty, USD/MT	140,0	140,0	140,0	140,0	140,0	140,0	140,0	140,0
VAT 10%	53,0	57,3	56,0	55,7	55,5	52,7	54,1	50,6
Cost of raw sugar DDP-factory (Krasnodar), USD/MT	609,3	656,6	643,1	639,2	637,0	606,7	622,3	583,9
Processing cost with bagged, USD/MT	31,2	32,5	33,6	34,1	35,5	35,8	35,9	36,8
Full cost of white sugar EXW-factory (Krasnodar), USD/MT	677,1	726,8	713,8	710,2	710,9	679,3	694,3	654,8
Current market price, USD/MT	620,2	729,1	710,5	680,9	688,0	701,4	785,5	791,0
Calculated income, , USD/MT	-56,9	2,3	-3,3	-29,3	-22,9	22,1	91,2	136,2
Calculated margin, %	-8,4%	0,3%	-0,5%	-4,1%	-3,2%	3,3%	13,1%	20,8%

Note: From August 2006 - estimated

Source: ISCO-I Sugar Monitoring; www.isco-i.ru

Stocks

Sugar stocks did not change significantly, since the decline in raw sugar imports coincided with decreased consumption.

Policy

The Russian Minister of Agriculture stated that Russia is permitted to import 25 percent of granulated sugar from Ukraine. No details were indicated.

The Russian Ministry of Economic Development and Trade, following an investigation into white sugar production in Belarus, reported that it may introduce a compensatory duty on imports. Belarus stated that this measure would be unjustified. The proposed duty would be 8.1% of the customs cost, but not less than \$35.90 per ton. The investigation was carried out at the request of the Russian sugar union, which claims that Belarus has been using raw sugar under the guise of sugar beet. At present, only sugar produced from sugar beets is imported from Belarus without any duties, while raw sugar is subjected to a duty of \$340 per ton. Belarus informed Russian of their measures to conform with Federal Customs Service policies on determining the origin of sugar.

PS&D Tables

Table 4. PSD Sugar Beet Production, Estimates and Forecasts

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New	UOM
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007	MM/ YYYY
Area Planted	980	980	980	1070	1070	1120	0	0	1150	(1000 HA)
Area Harvested	965	965	965	1040	1040	1080	0	0	1100	(1000 HA)
Production	21800	21800	21800	22000	22000	23000	0	0	23200	(1000 MT)
Total Supply	21800	21800	21800	22000	22000	23000	0	0	23200	(1000 MT)
Utilization for Sugar	21800	21800	21800	22000	22000	23000	0	0	23200	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	21800	21800	21800	22000	22000	23000	0	0	23200	(1000 MT)

Table 5. PSD Sugar Centrifugal, Estimates and Forecast

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New	UOM
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/ YYYY
Beginning Stocks	580	580	580	470	470	470	400	400	400	(1000 MT)
Beet Sugar Production	2500	2500	2500	2550	2550	2650	0	0	2700	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Sugar Production	2500	2500	2500	2550	2550	2650	0	0	2700	(1000 MT)
Raw Imports	3600	3600	2600	3700	3700	3000	0	0	3000	(1000 MT)
Refined Imp. (Raw Val)	600	600	300	600	600	400	0	0	400	(1000 MT)
Total Imports	4200	4200	2900	4300	4300	3400	0	0	3400	(1000 MT)
Total Supply	7280	7280	5980	7320	7320	6520	400	400	6500	(1000 MT)
Raw Exports	10	10	10	10	10	10	0	0	10	(1000 MT)
Refined Exp. (Raw Val)	100	100	100	100	100	100	0	0	100	(1000 MT)
Total Exports	110	110	110	110	110	110	0	0	110	(1000 MT)
Human Dom. Consumption	6700	6700	5400	6810	6810	6010	0	0	6000	(1000 MT)
Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Disappear	6700	6700	5400	6810	6810	6010	0	0	6000	(1000 MT)
Ending Stocks	470	470	470	400	400	400	0	0	390	(1000 MT)
Total Distribution	7280	7280	5980	7320	7320	6520	0	0	6500	(1000 MT)