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Russian Federation

Sugar

Semi-Annual Sugar Report

2007

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Report Highlights:
Sugar beet production and processing are rising as farmers and refineries increase sugar beet acreage to implement the Russian government's plan to reach 67 percent sugar self-sufficiency by 2012. Imports and exports of raw sugar increased dramatically in 2007. In December 2007 the import duty on raw sugar will jump to $220/MT for a period of 6 months - an increase of $60/MT. Sugar imports are forecast to rise slightly in 2008, even with the higher duty in place, as domestic production cannot keep pace with consumer demand. Sugar beet producers and processors continue lobbying for even higher seasonal duties on imported sugar.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Moscow [RS1]
[RS]

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Data included in this report are not official USDA data. Official USDA data are available at http://www.fas.usda.gov/psdonlineonline.

Executive Summary

Sugar beet production and acreage increased 9 percent in Marketing Year (MY) 2007 compared to the previous year. Production acreage in 2008 is forecast to rise an additional 8 percent. In December 2007 the import duty on raw sugar will jump to $220/MT for a period of 6 months - an increase of $60/MT. This sharp increase is a direct result of a resolution establishing a variable duty on imported raw sugar, ranging from $220 to $270/MT, based on average monthly prices on the New York Board of Trade (NYBOT) (see RS7072).

During the first three quarters of MY 2007, the import volume of raw sugar exceeded that of the entire MY 2006. In response to growing sugar imports, domestic sugar beet producers are pushing to establish long-term seasonal duties to boost the Russian sugar beet industry. In accordance with the State Program for Development of Agriculture and Regulation of Food and Agricultural Markets in 2008-2012, Russia expects to increase the proportion of granulated sugar produced by domestic sugar beets from 54.7 percent in 2006 to 67 percent by 2012 (see RS7051). Belarus has raised the value-added tax rate on Russian white sugar to 24 percent from 18 percent as of September 1, 2007.

Production

Sugar beet production and acreage in Russia increased by 9 percent in MY 2007 compared to the previous year. Production acreage in 2008 is forecast to rise an additional 8 percent. According to the Russian Statistics Agency, average sugar beet yields dropped 12 percent in MY 2007 compared to the previous year due mostly to a drought in the sugar beet producing regions. Despite this decrease, market analysts are confident that production figures will rise in the coming years due to long-term planning by large agricultural holding companies. These companies are currently processing domestically grown sugar beet and have shown steady growth during the past five years. In addition, the Ministry of Economic Development and Trade and the Ministry of Agriculture are developing measures (including the introduction of seasonal import duties) to support growth in domestic sugar production.

According to the Russian Sugar Union (RSU), Russian producers generated 2.5 MMT of sugar during the first 10 months of 2007. Representatives from RSA recently announced that 3 MMT of sugar will be produced from domestic beets by the end of 2007 – up 23 percent compared to the previous year.

Table 1. Russia: Production of Sugar Beets, Marketing Year

	2005	**2006**	**2007**
Sugar beet area, 1,000 hectares	349	365	368
Sugar beet harvest, MMT	9.4	10.9	9.7
Yield, MT/hectare	26.9	29.9	26.4

Source: Russian Statistics Agency

Table 2. Russia: Production, Supply and Demand Table for Sugar Beets

PSD Table										
Country	**Russian Federation**									
Commodity	**Sugar Beets**					**Unit of Measure 1000 HA/1000 MT**				
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09.2005	09.2005		09.2006	09.2006		09.2007	09.2007	
Area Planted	980	980	980	1070	1120	1070	0	1150	1150	1000 HA
Area Harvested	965	965	965	1040	1080	1040	0	1100	1100	1000 HA
Production	21800	21800	21800	22000	30000	22000	0	28000	24000	1000 MT
Total Supply	21800	21800	21800	22000	30000	22000	0	28000	24000	1000 MT
Utilization for Sugar	21800	21800	21800	22000	30000	22000	0	28000	24000	1000 MT
Utilization for Alcohol	0	0	0	0	0	0	0	0	0	1000 MT
Total Distribution	21800	21800	21800	22000	30000	22000	0	28000	24000	1000 MT

Policy

The recently approved State Program for Development of Agriculture and Regulation of Food and Agricultural Markets in 2008-2012 aims to increase the proportion of granulated sugar produced from domestic sugar beets from 54.7 percent in 2006 to 67 percent by 2012 (see RS7051). During the next few years, the domestic sugar industry will focus on expanding white sugar production from domestic sugar beets to meet domestic demand. The program will aim to reduce the country's dependence on imports of raw sugar, facilitate conditions for strengthening industrial efficiency, and support the profitability of domestic sugar and sugar beet producers. In addition, measures are currently being developed to improve customs tariff regulation of raw and white sugar imports.

Consumption

Overall direct sugar consumption by the general population remains stable, but industrial consumption, particularly in the soft drink and food processing sectors, continues to grow.

Table 3. Russia: Production, Supply and Demand Table for Sugar, Centrifugal

PSD Table									
Country	**Russian Federation**								
Commodity	**Sugar, Centrifugal**					**Unit of Measure 1000 MT**			
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10.2005	10.2005		10.2006	10.2006		10.2007	10.2007
Beginning Stocks	580	580	580	470	470	470	440	440	870
Beet Sugar Production	2500	2500	2500	3150	3150	3150	3000	3000	3000
Cane Sugar Production	0	0	0	0	0	0	0	0	0
Total Sugar Production	2500	2500	2500	3150	3150	3150	3000	3000	3000
Raw Imports	2600	2600	2600	2650	2650	3350	2850	2850	2850
Refined Imp. (Raw Val)	300	300	300	300	300	300	300	300	300
Total Imports	2900	2900	2900	2950	2950	3650	3150	3150	3150
Total Supply	5980	5980	5980	6570	6570	7270	6590	6590	7020
Raw Exports	10	10	10	0	0	0	0	0	0
Refined Exp. (Raw Val)	100	100	100	180	180	350	200	200	450
Total Exports	110	110	110	180	180	350	200	200	450
Human Dom. Consumption	5400	5400	5400	5950	5950	6050	5990	5990	6000
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	5400	5400	5400	5950	5950	6050	5990	5990	6000
Ending Stocks	470	470	470	440	440	870	400	400	570
Total Distribution	5980	5980	5980	6570	6570	7270	6590	6590	7020

Trade

Russia's sugar market is estimated at approximately 6 MMT per year. The deficit in supply is filled with imports of both raw and refined sugar. The proportion of raw sugar imported in 2008 is expected to increase due to a drop in domestic production. During the first 3 quarters of MY 2007, the total quantity of imported raw sugar exceeded that of the entire MY 2006. Sugar imports are forecast to rise even higher in 2008, even with the higher duty in place, as domestic production cannot keep pace with consumer demand.

Russian exports of raw sugar grew dramatically during the first 6 months of 2007 compared to the same period in 2006. Kazakhstan, Tajikistan, and Uzbekistan are Russia's largest raw sugar export markets. Brazil provides the bulk of Russia's raw sugar imports while Belarus and Poland remain the largest suppliers of refined sugar.

Table 4. Russia: Raw Sugar imports by Quarter in 1,000 MT, Marketing Year

Year	Q1	Q2	Q3	Q4	Total
2005	640	538	1,434	719	**3,331**
2006	338	742	952	480	**2,512**
2007	550	1,065	993	Not Available	**2,608**

Source: World Trade Atlas

Table 5. Russia: Raw Sugar Exports by Country in MT

		Jan-June 2005	Jan-June 2006	Jan-June 2007
Rank	**Country**	**MT**	**MT**	**MT**
0	--The World--	47,193	46,155	234,716
1	Kazakhstan	15,946	22,941	82,815
2	Tajikistan	9,075	10,143	62,013
3	Uzbekistan	1	5	42,939
4	Afghanistan	0	1,689	16,858
5	Turkmenistan	1,000	1	15,923

Source: World Trade Atlas

Prices

Domestic sugar prices dropped, on average, from $666/MT in July 2007 to $614/MT in August 2007. A notable exception was seen in the Kaliningrad region in September 2007 where sugar prices increased by 15 to 18 rubles/KG. The most likely cause for the jump in price in Kaliningrad is the growing presence of speculative agreements among regional wholesalers and retailers who take advantage of the region's remoteness.

The average price for refined sugar in Russia has remained stable during 2007. Prices dropped in September 2007 once sugar beet processing began but are expected to rise once again in a few months. Wholesale sugar prices in Moscow are higher than wholesale prices in the sugar beet producing region of Krasnodar. The minimum price on sugar beets for the 2007 harvest season was equal to the level of 2006.

Table 6. Russia: White Sugar Wholesale Prices in Moscow, RUR/KG

Date	2004	2005	2006	2007
January 9	13.60	16.60	17.50	15.70
February 2	13.50	19.50	20.50	15.30
March 3	14.10	22.20	25.00	14.80
April 2	14.30	19.50	20.40	14.70
May 2	14.50	18.60	19.40	15.25
June 1	14.50	18.60	19.60	15.80
July 2	14.60	20.30	21.35	16.10
August 1	16.00	21.40	22.40	18.00
September 3	15.00	18.70	21.60	16.30
October 1	14.40	16.80	18.20	15.20
November 1	13.40	14.90	15.55	15.30
December 1	13.70	15.00	15.80	No data

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

Table 7. Russia: White Sugar Wholesale Prices in Krasnodar, RUR/KG

Date	2004	2005	2006	2007
January 9	13.60	14.20	14.45	15.00
February 2	13.55	14.10	14.45	14.40
March 3	14.30	14.80	15.10	13.90
April 2	14.20	14.90	14.95	13.90
May 2	14.50	15.15	15.20	14.45
June 1	15.05	15.30	15.65	15.20
July 2	15.10	15.15	15.65	15.10
August 1	15.20	16.90	16.00	16.45
September 3	13.70	15.85	14.80	14.60
October 1	13.90	15.90	15.10	14.60
November 1	14.00	14.30	14.60	14.40
December 1	14.30	14.65	14.70	Na data

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

Table 8. Russia: Wholesale Sugar Beet Prices in Central Black Soil Zone, RUR/MT

Year	Minimum price	Maximum price	Average price
2005	950	1,280	1,140
2006	1,000	1,560	1,380
2007	1,060	1320	1,200

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

Stocks

As of the end of September, Russia's transfer stocks of sugar totaled more than 1.3 MMT and are steadily increasing. The RSU reckons Russia will have sugar beet transfer reserves of more than 3 MMT tons by the end of December 2007, which is equivalent to the amount of sugar consumed in Russia over a seven-month period. It will consist of 2.5 MMT of sugar from raw sugar processed between January and September 2007, as well as nearly 3 MMT of sugar beets to be produced from domestic crops by the end of 2007. Additionally, Belarus will ship its quota of 180,000 MT.

Russia Approves Seasonal Import Duty on Raw Sugar Imports

In December 2007 the import duty on raw sugar will jump to $220/MT for a period of 6 months - an increase of $60/MT. This sharp increase is a direct result of a resolution establishing a variable seasonal duty on imported raw sugar, ranging from $220 to $270/MT, based on average monthly prices on the New York Board of Trade (NYBOT) (see RS7072). Domestic sugar beet producers and processors are lobbying for higher seasonal import duties on imported sugar in an attempt to maintain relatively high sugar prices. Foreign producers have sharply increased their sugar exports to Russia before the seasonal duty kicks in next month.

Marketing

Under an intergovernmental agreement signed with Russia in March 2007, Belarus agreed to eliminate the requirement of channeling all agricultural imports through temporary storage warehouses originating in and shipped from Russia. Belarus also agreed to establish a new procedure for importing white cane sugar on the basis of licenses issued by the Ministry of Trade at a cost equivalent to $340/MT. Moreover, Belarus has pledged to restrict exports of sugar produced from sugar beets to Russia to 180,000 tons in 2007 and 100,000 tons in 2008.

Belarus Raises Value-Added Tax (VAT) on Imported Sugar

Belarus recently raised the VAT rate on white sugar imports from 18 percent to 24 percent as of September 1, 2007. Officials from the Belarusian Ministry of Trade have stated that the increase would not lead to changes in fixed sugar prices. Market analysts have stated that the VAT was raised primarily to hurt sugar exports from Russia. Belarus has fixed sugar prices that are higher than Russian prices and this has led to increased exports from Russia. As a result, Belarusian producers began complaining of lower profits. At the same time, the VAT hike will not affect exports of Belarussian sugar to Russia because a zero VAT rate for imports from Belarus is in effect.

Other Relevant Reports

RS7032 Sugar Annual report
http://www.fas.usda.gov/gainfiles/200704/146280794.pdf

RS7051 Government Program for Agriculture and for Market Regulation 2008-2012
http://www.fas.usda.gov/gainfiles/200707/146291764.pdf

RS7072 Seasonal Sugar Import Tariffs Published
http://www.fas.usda.gov/gainfiles/200710/146292767.pdf