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Sugar

Sugar Semi-Annual Report

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Report Highlights:

Sugar beet production increased 8.3 percent in Marketing Year (MY) 2008 compared to the previous year while acreage increased 7 percent. Production acreage in 2009 is forecast to decrease 2 percent as farmers switch to planting more profitable grains. On December 1, 2008, rates for the variable levy on imported sugar will range from \$220 to \$270 per metric ton (MT), based on average monthly prices at the New York Board of Trade (NYBOT). These rates remain in effect until May 31, 2009, unless either Russia accedes to the World Trade Organization in the meantime or the NYBOT average monthly price goes over \$259.99 per MT. Kazakhstan, Uzbekistan, and Georgia are Russia's largest raw sugar export markets. Brazil provides the bulk of Russia's raw sugar imports while Poland and Brazil are the largest suppliers of refined sugar.

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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 increased 8.3 percent in Marketing Year (MY) 2008 compared to the previous year while acreage increased 7 percent. Production acreage in 2009 is forecast to decrease 2 percent as farmers switch to planting more profitable grains. On December 1, 2008, rates for the variable levy on imported sugar will range from \$220 to \$270 per metric ton (MT), based on average monthly prices at the New York Board of Trade. These rates remain in effect until May 31, 2009, unless either Russia accedes to the World Trade Organization in the meantime or the NYBOT average monthly price goes over \$259.99 per MT. The domestic sugar beet producers managed to establishment long-term seasonal duties to boost sugar beet production in response to growing sugar imports.

During the first three quarters of MY 2008, the import volume of raw sugar was below that of the three quarters of MY 2007. 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).

Production

Sugar beet production increased 8.3 percent in Marketing Year (MY) 2008 compared to the previous year while acreage increased 7 percent. Production acreage in 2009 is forecast to decrease 2 percent as farmers switch to planting more profitable grains. Over the past two years Russia has harvested record quantities of sugar beet, which produced over 3 million MT of sugar; slightly more than half of total domestic consumption. Imported white sugar made up the difference. According to the Russian Statistics Agency (Rosstat), sugar beet sowing dropped in 2008 as many farmers switched to planting more profitable grains. 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 to 67 percent by 2012.

Rosstat recently reported that as of mid-September 2008, Russia harvested 5 million MT of sugar beets from 138,900 hectares, or 17% of the total. The yield, up to that point, reached 36.2 MT per hectare - up 9.7 MT compared to the CY 2007 average. Sugar market analysts are forecasting that the gross sugar beet harvest will decrease substantially in 2009 as farmers move from sowing sugar beets to grains.

The 2008 sugar beet farmgate price ranged from 1,000 Rubles/MT – 1,250 Rubles/MT depending on beet sugar content. Sugar beet producers claim that they are operating at a loss and need to receive at a minimum 1,400 Rubles/MT to break even. If this were to happen, at 40 MT/hectare beet yield, profitability would be 32 percent. Market analysts have stated that Russia should focus more on increasing yields than on increasing acreage of sugar beets. The highest average yield over the last decade was 30.8 MT/hectare in 2006. With better technology and adoption of modern management systems, sugar beet yields could reach as high as 45 MT/hectare. Along with this, Russia needs to build more processing facilities to handle a growth in sugar beet production. Market analysts estimate that 53 billion Rubles should be invested in the processing sector to reach the goals established for sugar in the State Program for Development of Agriculture and Regulation of Food and Agricultural Markets in 2008-2012.

Production Costs Are Rising

Production costs for processing raw sugar in 2008 increased approximately 15 percent. Taking into account that world prices for raw sugar are flat, refined sugar prices are expected to rise by 10-13 percent due to the major increase in production costs. The indicative price for processing 1 MT of raw sugar will likely hit 1,750 Rubles in late 2008 for refineries that process a minimum of 850 MT of raw sugar per day.

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

	2004	2005	2006	2007
Sugar beet area in 1,000 hectares	850	805	1,003	1,065
Sugar beet harvest in 1,000 MT	21,848	21,420	30,861	28,236
Yield in MT per hectare	25.7	26.6	30.8	26.5

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

PSD Table									
Country	Russian Federation								
Commodity	Sugar Beets			Unit of Measure (1000 HA) or (1000 MT)					
	2007	Revised		2008	Estimate		2009	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		09.2006	09.2006		09.2007	09.2007		09.2008	09.2008
Area Planted	1070	1120	1070	1150	1150	1150	0	0	1070
Area Harvested	1040	1080	1040	1100	1100	1100	0	0	1070
Production	22000	30000	22000	24000	28000	24000	0	0	23500
Total Supply	22000	30000	22000	24000	28000	24000	0	0	23500
Utilization for Sugar	22000	30000	22000	24000	28000	24000	0	0	23500
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Distribution	22000	30000	22000	24000	28000	24000	0	0	23500

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

PSD Table									
Country	Russian Federation								
Commodity	Sugar, Centrifugal					Unit of Measure (1000 MT)			
	2007	Revised		2008	Estimate		2009	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		10.2006	10.2006		10.2007	10.2007		10.2008	10.2008
Beginning Stocks	470	470	470	440	440	440	400	400	400
Beet Sugar Production	3150	3150	3150	3000	3000	3000	0	0	2950
Cane Sugar Production	0	0	0	0	0	0	0	0	0
Total Sugar Production	3150	3150	3150	3000	3000	3000	0	0	2950
Raw Imports	2650	2650	2650	2850	2850	2550	0	0	2800
Refined Imp.(Raw Val)	300	300	300	300	300	300	0	0	300
Total Imports	2950	2950	2950	3150	3150	2850	0	0	3100
Total Supply	6570	6570	6570	6590	6590	6290	400	400	6450
Raw Exports	0	0	0	0	0	0	0	0	0
Refined Exp.(Raw Val)	180	180	180	200	200	150	0	0	200
Total Exports	180	180	180	200	200	150	0	0	200
Human Dom. Consumption	5950	5950	5950	5990	5990	5740	0	0	5850
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	5950	5950	5950	5990	5990	5740	0	0	5850
Ending Stocks	440	440	440	400	400	400	0	0	400
Total Distribution	6570	6570	6570	6590	6590	6290	0	0	6450

White Sugar Production

Beet sugar production will decrease 150,000 MT in 2008 bottoming out at 3 million MT compared to the previous year. Market analysts predict a further 2 percent decrease in 2009 due to a reduction in sugar beet acreages.

Sugar Monitoring ISCO-I (<http://www.isco-i.ru/>) reported that Russia processed 2.25 million MT of cane sugar from January-September 2008, down from 2.56 million MT during the same period in 2007. In addition, Russia produced only 2.21 million of white sugar during the first 9 months of 2008 compared to 2.51 million MT in 2007. Sugar production including processing of imported white sugar cane totaled 6.1 million MT in CY 2007 compared with 5.8 million MT in CY 2006.

Policy

On December 1, 2008, rates for the variable levy on imported sugar will range from \$220 to \$270 per metric ton (MT), based on average monthly prices at the New York Board of Trade. These rates remain in effect until May 31, 2009, unless either Russia accedes to the World Trade Organization in the meantime or the NYBOT average monthly price goes over \$259.99 per MT. The domestic sugar beet producers managed to establishment long-term seasonal duties to boost sugar beet production in response to growing sugar imports.

The Russian government recently announced a plan to prolong a ban on duty free exports of Ukrainian sugar to the Russian territory until 2013. Initially the ban was to be lifted on January 1, 2009. The final decision will be taken in October when the prime ministers of both countries meet. Ukraine has loudly voiced its displeasure with such action but is making arrangements to obtain 300,000 MT of white sugar export quota should the ban be extended.

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. Sugar consumption is expected to increase 1.5 percent in 2009.

Trade

Russia's sugar market is estimated at approximately 6.3 million MT per year. The deficit in supply is filled with imports of both raw and refined sugar. From October 2007 to June 2008, Russia imported 1.94 million MT of raw sugar compared to 2.5 million MT during the same period a year earlier. An additional 1 million MT is expected until the seasonal duties are imposed beginning December 1, 2008. Domestic sugar beet producers managed to establishment long-term seasonal duties to boost sugar beet production in response to growing sugar imports. 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 GAIN RS7051). Sugar imports are forecast to rise even higher in 2009, even with the higher duty in place, as domestic production cannot keep pace with growing consumer demand.

From October 2007 to June 2008, Russian exports of raw sugar decreased significantly to only 54,151 MT compared to 302,224 MT during the same period a year earlier. Kazakhstan, Uzbekistan, and Georgia are Russia's largest raw sugar export markets. Brazil provides the bulk of Russia's raw sugar imports while Poland and Brazil are the largest suppliers of refined sugar.

Table 4. Russia: Raw Sugar Exports by Country in MT

		Oct 05 - Jun 06	Oct 06 - Jun 07	Oct 07 - Jun 08
Rank	Country	MT	MT	MT
	-- The World --	77,666	302,224	54,151
1	Kazakhstan	38,883	97,049	25,442
2	Uzbekistan	8	55,231	8,688
3	Georgia	1,016	8,112	7,177
4	Azerbaijan	19,505	9,100	5,225
5	Turkmenistan	50	21,789	3,799
6	Tajikistan	13,99	81,687	2,232
7	Lithuania	1,00	168	919

Source: World Trade Atlas

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

		Oct 05 - Jun 06	Oct 06 - Jun 07	Oct 07 - Jun 08
Rank	Country	MT	MT	MT
	-- The World --	1,966,9923	2,519,960	1,943437
1	Brazil	1,696,433	2,071,180	1,737,799
2	Cuba	55,502	174,822	125,289
3	India	0	0	26,000
4	Argentina	82,058	126,762	25,799
5	Thailand	0	43,593	24,050
6	Colombia	26	126	1,402

Table 6. Russia: Pure Sucrose Imports by Country in MT

		Oct 05 - Jun 06	Oct 06 - Jun 07	Oct 07 - Jun 08
Rank	Country	MT	MT	MT
0	-- The World --	89,037	89,474	51,102
1	Poland	51,635	26,870	40,845
2	Brazil	0	14,611	6,010
3	United States	473	670	747

Source: World Trade Atlas

Stocks

As of the end of August 2008, Russia's transfer stocks of sugar totaled approximately 1.5 million MT and are steadily increasing. The RSU estimates that Russia will have sugar beet transfer reserves of more than 3 million MT by the end of December 2008, which is equivalent to the amount of sugar consumed in Russia over half a year.

Marketing

Garipoglu Group (Turkey) plans to invest 30 million USD to build a new glucose production facility in Voronezh oblast. Market analysts predict strong growth in demand for this product from the food processing sector. Experts predict high demand on the product from food processing industry.

Other Relevant Reports

RS8073 Seasonal Sugar Import Tariffs Published
<http://www.fas.usda.gov/gainfiles/200809/146295888.pdf>

RS8032 Sugar Annual Report
<http://www.fas.usda.gov/gainfiles/200804/146294414.doc>

RS8016 Sugar Union Demands More Government Support
<http://www.fas.usda.gov/gainfiles/200803/146293871.doc>

RS7083 Sugar Semi-Annual Report
<http://www.fas.usda.gov/gainfiles/200711/146292998.pdf>

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

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

RS7032 Sugar Annual Report
<http://www.fas.usda.gov/gainfiles/200704/146280794.pdf>