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Report Highlights:

Sugar beet plantings and production are forecast to increase by approximately ten percent each for the marketing year beginning October 2003, due to the relatively high prices resulting from the raw sugar Tariff Rate Quota (TRQ), high demand from processors, and replanting of frost damaged wheat acreage with sugar beets. Russian imports of raw sugar are forecast to remain stable under the 3.95 MMT TRQ in 2003. However, on April 15 Russia will implement a 180-day provisional duty on sugar syrup imports in order to prevent circumvention of the sugar TRQ.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Moscow [RS1], RS

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Executive Summary

Sugar beet plantings and production are forecast to increase by approximately ten percent each for the marketing year beginning October 2003. Sugar beets are forecast to be planted on one million hectares, with sugar yields returning to normal after high yields the year before. Farmers are expecting to plant more as a result of the relatively high price of sugar due to the raw sugar TRQ, high demand for raw sugar from processors, and replanting of wheat acreage with sugar beets. The previous year was plagued by a summer drought and heavy rains in the fall and approximately 100,000 hectares (10 percent of total sown area) were not harvested, with the result that production of raw sugar decreased by three percent. Trade has been stable over the past several years due to the sugar import TRQ (3.95 MMT in 2003). However, on April 15, Russia will implement a 180-day provisional duty on sugar syrup imports in order to prevent circumvention of the sugar TRQ.

Production

With the above mentioned area increase and with sugar yields returning to normal, a total beet harvest of 17 million tons is forecast. Farmers are expecting to plant more as a result of the relatively high price of sugar due to the raw sugar TRQ, high demand for raw sugar from processors, and replanting of wheat acreage with sugar beets. According to Ministry of Agriculture reports, an estimated 20 percent of winter wheat area was damaged due to heavy winter frost and will be replanted. Due to the favorable price of sugar, some of that area is likely to be replanted with sugar beets rather than spring grains. Though sugar yields will fall to more normal levels, Russian production of raw sugar is forecast to increase by eight percent.

The previous year (marketing year beginning October 2002) was unusual due to a summer drought and heavy rains in fall. Thus, approximately 100,000 hectares (10 percent of total sown area) were not harvested and total beet yield also decreased. Nevertheless, sugar beet yield was high in those areas that were harvested and sugar content was also above average. Despite the significant fall in harvested area and beet yield, production of raw sugar decreased by only three percent as compared with the previous year.

Compared to the relatively conservative estimates provided by the Russian Ministry of Agriculture, industry expects a much higher increase in sugar beet production due to an increase in acreage. Industry analysts predict that there will be a much stronger planting response to the high prices and demand in the Russian market. They also point to some of the investments that the sugar refiners and traders are making into the industry. In fact, the government designed the sugar TRQ system to protect domestic producers and attract investment in sugar beet production. However, industry participants state that the frequent changes in the TRQ system have not provided a stable environment for long term investment. Thus, many think that the small amount of investment that has taken place is more a result of the higher output prices than of the creation of a better investment climate through the use of trade policy. Industry participants think that more investment would have been made and will be made if they could be confident in a consistent sugar trade policy.

Fertilizer usage has been increasing slightly in recent years as input supplies become more stable. Inorganic fertilizer utilization per hectare of sugar beets was 87 kilograms in 1999, 119 kilos in 2000, and 139 kilos in 2001 (calculated as 100 percent active matter content) and for organic fertilizers was 1.9, 1.8 and 2.0 MT/hectare, respectively.

Table 1. Sugar Beet Production, Calendar Year 2001 and 2002

	2002	2001	Average, 1996-2000
Sugar beet area, HA	814,000	773,000	902,000
Sugar beets production, MMT	15.5	14.6	14.0
Sugar Beet Yield, MT/hectare (harvested crop)	21.8	19.9	17.7

Source: Russian State Statistic Committee

Table 2. Production of Sugar Beets

PSD Table						1,000 MT
Country:						1,000 HA
Commodity:	Sugar Beets					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	930	930	950	900	0	1000
Area Harvested	910	910	930	800	0	920
Production	16300	16300	15500	15500	0	17000
TOTAL SUPPLY	16300	16300	15500	15500	0	17000
Utilization for Sugar	16300	16300	15500	15500	0	17000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	16300	16300	15500	15500	0	17000

Table 3. Production of Supply and Distribution of Centrifugal Sugar

PSD Table						
Country:	Russian Federation					
Commodity:	Sugar					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Beginning Stocks	3100	3100	2130	2130	0	1350
Beet Sugar Production	1630	1630	1500	1580	0	1700
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1630	1630	1500	1580	0	1700
Raw Imports	4500	4600	5000	4100	0	4100
Refined Imp.(Raw Val)	300	250	300	400	0	300
TOTAL Imports	4800	4850	5300	4500	0	4400
TOTAL SUPPLY	9530	9580	8930	8210	0	7450
Raw Exports	10	10	10	10	0	10
Refined Exp.(Raw Val)	450	400	300	250	0	200
TOTAL EXPORTS	460	410	310	260	0	210
Human Dom. Consumption	6940	7040	7005	6600	0	6200
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	6940	7040	7005	6600	0	6200
Ending Stocks	2130	2130	1615	1350	0	1040
TOTAL DISTRIBUTION	9530	9580	8930	8210	0	7450

Food processing industry

Sugar beets were processed at only 81 out of the 93 refineries existent in 2002. The remaining twelve were idle because they were short of raw material. There are currently 57 raw sugar refineries in Russia. The sugar extraction rate from raw sugar was 97.3 percent or 0.04 percent more than in 2001, which is explained by high polarization of imported raw sugar and a reduction of losses during processing.

Table 4. Sugar Production and Utilization, By Calendar Year, 1,000 MT.

	2002	2001	2000
White sugar	6,197	6,593	6,100
Including:			
From sugar beets	1,620	1,610	1,560
Confectionary products	1,952	1,794	1,628
Canned jams and preserves, mln conditional cans	3,393	4,247	3,223
Hard alcoholic drinks, mln deciliters	139	131	123

Source: Russian State Statistics Committee

Consumption

Demand for white sugar is generally stable in the Russian Federation. Though parts of the food processing industry are growing, the relatively high price for sugar on the Russian market and the TRQ limit on imports have slightly decreased consumption in the last two years. Consumption is likely to stabilize when the TRQ and carry over stocks come into equilibrium. However, at the current time the growing processed food sectors (confections, jams and jellies, and juices) are helping to draw down some of the unusually large sugar stocks.

Utilization of sugar for homemade alcoholic drinks will fall to some extent because profitability of the alcoholic output versus the cost of sugar inputs used to make it is decreasing as the price difference between legally produced vodka and white sugar decrease.

One developing area is the gradual displacement of homemade jams and jellies by commercially produced varieties among urban middle class families. This segment of the Russian population is less inclined to make jams and jellies at home. Higher per capita income and the availability of different types of sugar containing products of high quality and low price (jam, candies, etc.) have reduced the incentive to grow grapes and fruits on private plots and for home processing. However, as these products do cost more money (not including labor involved in growing and canning) overall consumption on a sugar equivalent basis decreases.

Trade

According to Russian Statistics, 25 companies shipped 4.5 MMT of sugar (on a raw sugar basis) to Russia in FY 2002. Additionally, there were about 125,000 MT of syrups and 61,000 MT of sugar containing products exported to Russia in 2002. However, total Russian imports for the marketing year beginning October 2003 are not expected to change significantly from the previous year. Imports of sugar syrups are expected to drop off somewhat after a change in the customs procedures to ensure that raw sugar is not coming into Russia in the form of syrup.

Table 5. Russian Trade in Sugar, 2001 and 2002, MT

	Customs Code	Export			Import		
		1701	1702	1704	1701	1702	1704
2001	QIV	28,506	48	5,788	1,062,163	11,746	17,406
2002	QI	52,887	304	4,404	1,004,000	9,650	12,557
	QII	76,410	1,294	4,738	2,337,167	23,116	20,522
	QIII	71,874	2,589	4,667	134,754	80,638	10,122
Total		229,677	435	19,970	4,538,084	125,150	60,607
2002	QIV	13,449	1,880	5,742	536,705	108,473	13,512

Source: Russian State Statistics Committee

Table 6. Import Trade Matrix

Import Trade Matrix			
Country:		Units:	1,000, MT
Commodity:	Sugar		
Time period:	Calendar Year		
Imports for	CY 2001		CY 2002
U.S.	1	US	1
Others		Others	
Cuba	1862	Cuba	1500
Brasil	2715	Brasil	2000
Poland	30	Poland	45
France	25	France	30
Germany	20	Germany	18
Argentina	50	Argentina	40
Guatemala	197	Guatemala	100
Columbia	100	Columbia	110
Costa-Rica	100	Costa-Rica	25
Nicaragua	165	Nicaragua	100
Salvador	120	Salvador	70
Thailand	75	Thailand	500
Belorussia	130	Belorussia	18
Netherlands		Netherlands	20
Moldova		Moldova	6
Korea		Korea	12
Total for Others	5,589	Total for Others	4,594
Others not listed	110	Others not listed	120
Grand Total	5,700	Grand Total	4,715

Note: Numbers may not add due to rounding.

Prices

The growth of white sugar prices in Russia during the fall of 2002 and beginning of 2003 was caused by the growth of world prices for raw sugar and by internal factors such as an increase in the trade surcharge from 3.79 rubles per kilo in January 2002 to 5.7 rubles per kilo in December 2002.

Table 7. Wholesale and Retail Sugar Prices in 2001 and 2002, Rubles/kilo without VAT

Month	Wholesale prices		Retail prices	
	2001	2002	2001	2002
January	11.0	10.4	15.9	15.2
February	11.5	10.4	16.2	15.2
March	11.0	10.2	16.0	15.0
April	10.7	10.2	15.5	14.8
May	10.9	10.3	15.5	15.0
June	10.9	10.4	15.4	15.0
July	11.0	11.0	15.6	17.7
August	10.9	11.0	15.7	17.4
September	10.8	11.4	15.45	7.23
October	10.4	12.0	15.2	18.0
November	10.1	12.4	14.9	18.9
December	10.0	12.5	14.9	19.5

Source: Magazine "Sugar", 2003, #1

Table 8. Comparison of Sugar Beet and White Sugar Prices, 1997-2001 (Ruble/MT)

	1997	1998	1999	2000	2001
Sugar beet frigate price	196	291	358	509	655
White sugar	4,330	12,690	9,200	15,620	14,880

Source: Russian State Statistic Committee

Table 9. Share of Sugar Beet Sales Through Different Channels, Percent of Total, Various Years

	1995	2001
For State needs	20.5	10.9
For sugar beet industry, wholesale trade, at the market, through own trade networks	65.3	52.1
To the population through the catering, as salary payments	2.5	12.2
Barter deals	11.7	24.8

Source: Russian State Statistics "Russian Agriculture - 2002"

Stocks

Sugar stocks remain high in Russia as a lingering result of the unpredictable nature of Russian sugar trade policy up to the TRQ implementation. Under the TRQ, companies have much less incentive to store excess supplies of sugar since they are more confident of a steady, if somewhat constrained, flow of imported raw sugar. If Russian sugar policy can remain stable for an extended period of time, sugar stocks are expected to continue to fall as managers come to a more efficient stocks-to-use ratio.

Policy

Agricultural producers in Russia have become increasingly vocal in requesting support from the government with production inputs. Partly as a result, Prime Minister Mikhail Kasyanov recently tasked the Ministry of Economic Development and Trade to develop a way to keep domestic fuel prices lower, a significant benefit for agricultural producers. The lack of agricultural machinery has also been addressed as the leasing interest rate was reduced from seven percent to four percent on prolonged term bases and advance payments will also be lowered (from ten percent to seven percent for the agricultural machinery of more than 700,000 rubles value and from 20 percent to 15 percent for agricultural machinery valued less than 700,000 rubles). Experts estimate that agricultural equipment prices will be four to nine percent lower for agricultural producers as a result. Despite past government attempts to spur leasing or purchases of machinery, sugar beet harvester availability in Russia has not changed significantly after reaching the bottom in 1999 (15.8 machines per 1,000 hectares in 1999 to 15.9 in 2001).

TRQ and Tariff Changes

Beginning January 2003, the import duty on raw sugar within the 3.95 MMT TRQ was Euro 95 per MT and the out-of-quota duty was 200-230 Euros per MT.

The Sugar Union of the Russian Federation (SURF) has pressured the government to increase custom duties on raw sugar shipped outside the TRQ in 2004 and to lower the TRQ level to 3.5-4MMT, depending on the 2003 sugar beet

harvest. SURF recommends that the out-of-quota duty should be no less than 230 Euros per MT and the seasonal duty should be 30 Euros higher. The customs duty on white sugar recommended by SURF should be 260-270 Euros per MT plus a seasonal duty, which is 30 Euros higher than the current white sugar duty. This organization is influential and its recommendations carry weight within the government, so since there has been general displeasure with the current system, these recommendations will get serious consideration.

Table 10. Basic and Seasonal Import Duties on Raw and White Sugar in 2003

	Resolution	Date	Applied Tariff
Basic Import tariff			
Raw sugar (HSC 1701 11 100 0, 1701 11 900 0, 1701 12 100 0, 1701 12 900 0, 1701 91 000 0)	Old	January 1,2002 - December 31,2002	40 percent, but not less than 0.12 Euro per kilo
	New	January 1,2003 - June 30, 2003	0.2 Euro per kilo
		July 1, 2003 - December 31, 2003	0.23 Euro per kilo
White sugar (HSC 1701 99 100 0, 1701 99 900 0)	Old	January 1,2002 - December 31,2002	40 percent, but not less than 0.14 Euro per kilo
	New	January 1,2003 - June 30, 2002	0.24 Euro per kilo
		July 1, 2003 - December 31, 2003	0.27 Euro per kilo
Seasonal tariffs			
Raw sugar (HSC 1701 11 1000, 1701 11 9000, 1701 12 1000, 1701 12 900 0, 1701 91 000 0)	Old	July 1, 2002 -- December 31, 2002	50 percent, but not less than 0.15EUR/kilo
White sugar, (HSC 1701 99 100 0, 1701 99 900 0)		July 1, 2002 -- December 31, 2002	50 percent, but not less than 0.18 EUR/kilo
Raw sugar (HSC 1701 11 100 0, 1701 11 9000, 1701 12 1000, 1701 12 900 0, 1701 91 000 0)	New	No seasonal tariffs will be applied in 2003	
Raw sugar (HSC 1701 11 1000, 1701 11 9000, 1701 12 1000, 1701 12 900 0, 1701 91 000 0)			

Source: Rossiiskaya Gazeta, July 20, 2002

Table 11. Tariff Rate Quota on Raw Sugar for 2003

Resolution	Date	Quota in Million MT	Applied Tariff
Old	January 1,2002 - June 30,2002	3.35 million MT	5 percent, but not less than 0.015EUR/kilo
	October 1,2002 - December 31, 2002	0.3 million MT	5 percent, but not less than 0.015EUR/kilo
New	January 1,2003 December 31, 2003	395	0.095 euro per kilo

Source: Rossiskaya Gazeta, July 20, 2002

The Government of Russia has stated it plans to change the system of sugar quota distribution. There are different versions of what the proposal entails, but the most probable allocation systems are the following: "production", "historical", or "bar" limitations. Refineries will be advantaged if the first principle is selected as they are the "producers"; participants in the previous auctions will win if the second principle is selected. In the third case, the State would set the quota volume and apply the principle of "first come - first served".

In line with a government resolution on the tariff regulation of raw and white sugar imports passed in July 2002, the import duty on raw sugar will be 0.2 euros per kilo from January 1 to June 30. From July 1 to December 31, the duty will be 0.23 euros per kilo. The duty was 0.12 euros per kilo in 2002, and from July 1, a seasonal duty of 50 percent but not less than 0.15 euros per kilo was charged.

The import duty on white sugar will be 0.24 euros per kilo from January 1 to June 30 and, from July 1 to December 31 it will be 0.27 euros per kilo. In 2002 the duty was 0.14 euros per kilo and from July 1 a seasonal duty of 50 percent, but not less than 0.18 euros per kilo was charged.

Change in Syrup Duty

Prior to April 15 2003, the customs duty on syrups was five percent. In March - August 2002, syrup imports increased by 15 times and the same upward trend was seen again in 2003. The sugar industry viewed this as an attempt by importers to import raw sugar in the form of syrups in order to avoid the TRQ and seasonal tariffs. Though the importers have not technically violated Russian law, what the Russian sugar industry called an illegal misclassification of imported product allowed importers to avoid the restrictions on raw sugar and save about \$100 per MT by doing so. Thus, according to the sugar traders, about 190,000MT of "liquid" sugar was imported in 2002 in real and so-called disguised forms. In January-February 2003, preliminary data shows that 142,000 MT of syrup was imported.

In response to the Government Commission for Protective Measures in Foreign Trade and Customs Tariff Policy recommendation of measures to combat this situation, the GOR imposed a temporary special import duty of 45 percent, but not less than 0.20 euros per kg of dry substance on sugar syrup (code 1702 90 990 0), for a period of 180 days. The government agreed with the Russian sugar industry and described the measure as necessary to stop

imports of sugar syrup from avoiding customs barriers that regulate imports of raw sugar. The current import duty for sugar syrup of five percent ad valorem be supplanted by the 180-day special duty on April 15, 2003.

Marketing

There are 93 sugar refineries in Russia. In the autumn of 2002, a promising refinery in Bashkortostan was sold at auction for a price of about \$7.3 mln, from a starting price of \$2.31 million. The price tripled because of heavy competition between sugar traders. Participants said that the real price of the deal should not have been more than \$3.0 million, but that the competition to acquire stable supplies was acute.

White Sugar Futures

The Moscow Inter-Bank Currency Exchange (MICEX) stated that it will be technologically ready to launch trading in white sugar futures in the second quarter of 2003 (initially planned at the end of 2002). The Council of Shareholders of MICEX approved in the middle of March 2003 specifications for futures on white sugar which will be delivered by authorized warehouses in the Krasnodar region. The size of an individual white sugar futures contract is 65 metric tons and the minimum price change will be 10 rubles per ton, while the length of the contract can be up to 18 months. Trading companies still do not have a good understanding of how the mechanism of securing deals will function.